



**SIMMONS FIRST TRUST COMPANY, N.A.**

January 9, 2002

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DPC Data Inc.  
Attn: NRMSIR  
One Executive Drive  
Fort Lee, New Jersey 07024

Interactive Data  
Attn: Repository  
100 Williams Street  
New York, New York 10038

Standard & Poor's/J. J. Kenny  
Attn: Repository  
55 Water Street, 45th Floor  
New York, New York 10041

**Re: Various State of Arkansas General Obligation Bond Issues  
(State of Arkansas Water Issues)  
(State of Arkansas College Issues)**

Ladies and Gentlemen:

We enclose to you for filing, pursuant to SEC Rule 15c2-12, the Annual Report of the State of Arkansas, relating to the above-styled bonds.

Yours very truly,

Glenda L. Dean  
Corporate Trust Officer

Enclosure

RUN DATE: 01/09/2002

PCND ISSUE 7401010 SHORT - ARK WATER 1997B  
STATE OF ARKANSAS WATER RESOURCES  
GENERAL OBLIGATION BONDS 1997B  
BI # 7401010  
CAPACITY CODE TAR-TRANSFER AGENT & REGISTRAR

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CUSIP	RANGE	MAT DATE	INT	ORC	DENOM	PAY	#COU	L	COU	COU	AMT	TOT UNPAID	REG OUT.	BEARER OUT.	ICM
041039278		07/01/1998	3.80%	5000		01/01/1999					0	0	0		E-6 M
***MAT															
0410392U5		07/01/1999	4.00%	5000		07/01/1999					0	0	0		E-6 M
***MAT															
0410392V3		07/01/2000	4.10%	5000		07/01/2000					0	0	0		E-6 M
***MAT															
0410392W1		07/01/2001	4.20%	5000		07/01/2001					0	0	0		E-6 M
***MAT															
0410392X9		07/01/2002	4.30%	5000		07/01/2002					295000	295000	0		E-6 M
0410392Y7		07/01/2003	4.3%	5000		07/01/2002					305000	305000	0		E-6 M
0410392Z4		07/01/2004	4.40%	5000		07/01/2002					320000	320000	0		E-6 M
0410393A4		07/01/2005	4.50%	5000		07/01/2002					330000	330000	0		E-6 M
0410393B2		07/01/2006	4.55%	5000		07/01/2002					345000	345000	0		E-6 M
0410393C0		07/01/2007	4.60%	5000		07/01/2002					365000	365000	0		E-6 M
0410393D7		07/01/2008	4.70%	5000		07/01/2002					380000	380000	0		E-6 M
0410393E5		07/01/2009	4.80%	5000		07/01/2002					400000	400000	0		E-6 M
0410393F3		07/01/2010	5.00%	5000		07/01/2002					415000	415000	0		E-6 M
0410393G1		07/01/2011	5.00%	5000		07/01/2002					435000	435000	0		E-6 M
0410393H9		07/01/2012	5.00%	5000		07/01/2002					460000	460000	0		E-6 M
0410393J3		07/01/2018	5.20%	5000		07/01/2002					3290000	3290000	0		E-6 M
0410393K1		07/01/2026	5.25%	5000		07/01/2002					6300000	6300000	0		E-6 M

TOTAL CALLED NOT PRESENTED 0

TOTAL MATURED NOT PRESENTED 0

TOT OUTSTANDING BEARER + REG 13640000

TOTAL REG OUTSTANDING 13640000

KLIN DATE: 01/09/2002

BOND ISSUE 7401020 SHORT - ARK WATER RES 98  
 ARKANSAS WATER RESOURCES  
 DEVELOPMENT GENERAL OBLIGATION  
 BONDS SERIES 1998 BI # 7401020  
 CAPACITY CODE RP-REGISTRAR & PAYING AGENT

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CUSIP	RANGE	MAT DATE	INT	ORC DENOM	PAY	#COU L	COU	COU AMT	TOT UNPAID	REG OUT.	BEARER OUT.	ICM
041039F37		07/01/1999	4.50%	5000	07/01/1999			0	0	0	0	E-6 M
***MAT												
041039F45		07/01/2000	4.50%	5000	07/01/2000			0	0	0	0	E-6 M
***MAT												
041039F52		07/01/2001	4.50%	5000	07/01/2001			0	0	0	0	E-6 M
***MAT												
041039F60		07/01/2002	4.50%	5000	07/01/2002			190000	190000	0	0	E-6 M
041039F78		07/01/2003	4.50%	5000	07/01/2002			200000	200000	0	0	E-6 M
041039F86		07/01/2004	4.50%	5000	07/01/2002			210000	210000	0	0	E-6 M
041039F94		07/01/2005	4.50%	5000	07/01/2002			220000	220000	0	0	E-6 M
041039G28		07/01/2006	4.50%	5000	07/01/2002			230000	230000	0	0	E-6 M
041039G36		07/01/2007	4.50%	5000	07/01/2002			240000	240000	0	0	E-6 M
041039G44		07/01/2008	4.50%	5000	07/01/2002			250000	250000	0	0	E-6 M
041039G51		07/01/2009	4.50%	5000	07/01/2002			260000	260000	0	0	E-6 M
041039G69		07/01/2010	4.50%	5000	07/01/2002			275000	275000	0	0	E-6 M
041039G77		07/01/2011	4.50%	5000	07/01/2002			285000	285000	0	0	E-6 M
041039G85		07/01/2012	4.70%	5000	07/01/2002			300000	300000	0	0	E-6 M
041039G93		07/01/2013	4.75%	5000	07/01/2002			315000	315000	0	0	E-6 M
041039H27		07/01/2014	4.80%	5000	07/01/2002			330000	330000	0	0	E-6 M
041039H35		07/01/2015	4.80%	5000	07/01/2002			345000	345000	0	0	E-6 M
041039H43		07/01/2016	4.80%	5000	07/01/2002			365000	365000	0	0	E-6 M
041039H50		07/01/2017	4.80%	5000	07/01/2002			380000	380000	0	0	E-6 M
041039H68		07/01/2018	4.80%	5000	07/01/2002			400000	400000	0	0	E-6 M
041039H76		07/01/2023	4.85%	5000	07/01/2002			2320000	2320000	0	0	E-6 M
041039H84		07/01/2027	4.875%	* 5000	07/01/2002			2310000	2310000	0	0	E-6 M

TOTAL CALLED NOT PRESENTED 0

TOTAL MATURED NOT PRESENTED 0

TOT OUTSTANDING BEARER + REG 9425000

TOTAL REG OUTSTANDING 9425000

RUN DATE: 01/09/2002

BOND ISSUE 7401030 SHORT - AR WTR WST 2000A  
 ARKANSAS WATER, WASTE DISPOSAL AND  
 POLLUTION ABATEMENT FACILITIES GO  
 SERIES 2000A BI # 7401030  
 CAPACITY CODE RP-REGISTRAR & PAYING AGENT

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CUSIP	RANGE	MAT DATE	INT	QRC DENOM	PAY	#COU	L	COU	COU	AMT	TOT UNPAID	REG OUT.	BEARER OUT.	ICM
041039566		07/01/2004	4.750%	5000	07/01/2002					70000	70000	0	0	E-6 M
041039574		07/01/2005	4.800%	5000	07/01/2002					75000	75000	0	0	E-6 M
041039582		07/01/2006	4.850%	5000	07/01/2002					80000	80000	0	0	E-6 M
041039590		07/01/2007	4.900%	5000	07/01/2002					80000	80000	0	0	E-6 M
041039598		07/01/2008	4.950%	5000	07/01/2002					90000	90000	0	0	E-6 M
041039606		07/01/2009	5.000%	5000	07/01/2002					90000	90000	0	0	E-6 M
041039614		07/01/2010	5.050%	5000	07/01/2002					95000	95000	0	0	E-6 M
041039622		07/01/2011	5.100%	5000	07/01/2002					100000	100000	0	0	E-6 M
041039630		07/01/2012	5.150%	5000	07/01/2002					105000	105000	0	0	E-6 M
041039638		07/01/2013	5.250%	5000	07/01/2002					110000	110000	0	0	E-6 M
041039646		07/01/2014	5.350%	5000	07/01/2002					115000	115000	0	0	E-6 M
041039654		07/01/2015	5.400%	5000	07/01/2002					125000	125000	0	0	E-6 M
041039662		07/01/2016	5.450%	5000	07/01/2002					125000	125000	0	0	E-6 M
041039670		07/01/2017	5.550%	5000	07/01/2002					140000	140000	0	0	E-6 M
041039678		07/01/2018	5.600%	5000	07/01/2002					140000	140000	0	0	E-6 M
041039686		07/01/2019	5.650%	5000	07/01/2002					155000	155000	0	0	E-6 M
041039694		07/01/2020	5.700%	5000	07/01/2002					160000	160000	0	0	E-6 M
041039702		07/01/2021	5.700%	5000	07/01/2002					170000	170000	0	0	E-6 M
041039710		07/01/2022	5.700%	5000	07/01/2002					180000	180000	0	0	E-6 M
041039718		07/01/2027	5.750%	5000	07/01/2002					1060000	1060000	0	0	E-6 M
041039726		07/01/2033	5.750%	5000	07/01/2002					1735000	1735000	0	0	E-6 M

TOTAL CALLED NOT PRESENTED 0

TOTAL MATURED NOT PRESENTED 0

TOT OUTSTANDING BEARER + REG 5000000

TOTAL REG OUTSTANDING 5000000



RUN DATE: 01/09/2002

BOND ISSUE 7401050 SHORT - AR WATER 1996A  
 ARKANSAS WATER RESOURCES B/O 1996 A  
 REFUNDING SERIES B1 # 7401050  
 CAPACITY CODE RP-REGISTRAR & PAYING AGENT

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CUSIP	RANGE	MAT DATE	INT	ORC	DENOM	PAY	#COU	L	COU	COU	AMT	TOT	UNPAID	REG	OUT.	BEARER	OUT.	ICM
041039QX9		07/01/1997	4.5%		5000	01/01/1998					0		0		0		0	E-6 M
***MAT																		
041039QY7		07/01/1998	4.5%		5000	01/01/1999					0		0		0		0	E-6 M
***MAT																		
041039QZ4		07/01/1999	4.5%		5000	07/01/1999					0		0		0		0	E-6 M
***MAT																		
041039RA8		07/01/2000	4.5%		5000	07/01/2000					0		0		0		0	E-6 M
***MAT																		
041039RB6		07/01/2001	4.5%		5000	07/01/2001					0		0		0		0	E-6 M
***MAT																		
041039RC4		07/01/2002	4.5%		5000	07/01/2002					435000		435000		435000		0	E-6 M
041039RD2		07/01/2003	4.5%		5000	07/01/2002					455000		455000		455000		0	E-6 M
041039RE0		07/01/2004	4.6%		5000	07/01/2002					475000		475000		475000		0	E-6 M
041039RF7		07/01/2005	4.7%		5000	07/01/2002					500000		500000		500000		0	E-6 M
041039RG5		07/01/2006	4.8%		5000	07/01/2002					525000		525000		525000		0	E-6 M
041039RH3		07/01/2007	4.9%		5000	07/01/2002					550000		550000		550000		0	E-6 M
041039RJ9		07/01/2008	5.0%		5000	07/01/2002					575000		575000		575000		0	E-6 M
041039RK6		07/01/2009	5.10%		5000	07/01/2002					605000		605000		605000		0	E-6 M
041039RL4		07/01/2010	5.20%		5000	07/01/2002					635000		635000		635000		0	E-6 M
041039RM2		07/01/2011	5.25%		5000	07/01/2002					670000		670000		670000		0	E-6 M
041039RN0		07/01/2012	5.375%	2	5000	07/01/2002					705000		705000		705000		0	E-6 M
041039RP5		07/01/2013	5.375%	2	5000	07/01/2002					740000		740000		740000		0	E-6 M
041039RQ3		07/01/2014	5.375%	2	5000	07/01/2002					780000		780000		780000		0	E-6 M
041039RR1		07/01/2017	5.375%	2	5000	07/01/2002					2600000		2600000		2600000		0	E-6 M

TOTAL CALLED NOT PRESENTED 0

TOTAL MATURED NOT PRESENTED 0

TOT OUTSTANDING BEARER + REG 10250000

TOTAL REG OUTSTANDING 10250000

RUN DATE: 01/09/2002

BOND ISSUE 7401060 SHORT - ARK WATER RES  
 ARKANSAS WATER RESOURCES 60 BONDS  
 SERIES 1996B BI # 7401060  
 CAPACITY CODE RP-REGISTRAR & PAYING AGENT

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CUSIP	RANGE	MAT DATE	INT	ORC	DENOM	PAY	#COU	L	COU	COU	AMT	TOT	UNPAID	REG OUT.	BEARER OUT.	ICM
041039RS9		07/01/1997	4.70%		5000	01/01/1998					0	0	0	0	0	E-6 M
***MAT																
041039RT7		07/01/1998	4.70%		5000	01/01/1999					0	0	0	0	0	E-6 M
***MAT																
041039RU4		07/01/1999	4.70%		5000	07/01/1999					0	0	0	0	0	E-6 M
***MAT																
041039RV2		07/01/2000	4.70%		5000	07/01/2000					0	0	0	0	0	E-6 M
***MAT																
041039RW0		07/01/2001	4.80%		5000	07/01/2001					0	0	0	0	0	E-6 M
***MAT																
041039RX8		07/01/2002	4.80%		5000	07/01/2002					145000	145000	0	0	0	E-6 M
041039RY6		07/01/2003	4.90%		5000	07/01/2002					155000	155000	0	0	0	E-6 M
041039RZ3		07/01/2004	5.00%		5000	07/01/2002					160000	160000	0	0	0	E-6 M
041039SA7		07/01/2005	5.10%		5000	07/01/2002					170000	170000	0	0	0	E-6 M
041039SB5		07/01/2006	5.20%		5000	07/01/2002					180000	180000	0	0	0	E-6 M
041039SC3		07/01/2007	5.35%		5000	07/01/2002					185000	185000	0	0	0	E-6 M
041039SD1		07/01/2008	5.45%		5000	07/01/2002					195000	195000	0	0	0	E-6 M
041039SE9		07/01/2009	5.55%		5000	07/01/2002					210000	210000	0	0	0	E-6 M
041039SF6		07/01/2010	5.60%		5000	07/01/2002					220000	220000	0	0	0	E-6 M
041039SG4		07/01/2011	5.60%		5000	07/01/2002					230000	230000	0	0	0	E-6 M
041039SH2		07/01/2012	5.65%		5000	07/01/2002					245000	245000	0	0	0	E-6 M
041039SJ0		07/01/2013	5.70%		5000	07/01/2002					255000	255000	0	0	0	E-6 M
041039SK5		07/01/2014	5.75%		5000	07/01/2002					275000	275000	0	0	0	E-6 M
041039SL3		07/01/2015	5.75%		5000	07/01/2002					290000	290000	0	0	0	E-6 M
041039SM1		07/01/2016	5.75%		5000	07/01/2002					970000	970000	0	0	0	E-6 M
041039SN9		07/01/2022	5.80%		5000	07/01/2002					1570000	1570000	0	0	0	E-6 M
041039SP4		07/01/2025	5.85%		5000	07/01/2002					1440000	1440000	0	0	0	E-6 M

TOTAL CALLED NOT PRESENTED 0

TOTAL MATURED NOT PRESENTED 0

TOT OUTSTANDING BEARER + REG 6895000

TOTAL REG OUTSTANDING 6895000

RUN DATE: 01/09/2002

BOND ISSUE 7401075 SHORT - ARK WATER 97A  
 ARK WATER RESOURCES G/O 1997A  
 RI # 7401075  
 CAPACITY CODE RP-REGISTRAR & PAYING AGENT

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CUSIP	RANGE	MAT DATE	INT	ORC DENOM	PAY	#COU L	COU	COU AMT	TOT UNPAID	REG OUT.	BEARER OUT.	ICM
041039WF4		07/01/1999	4.00%	5000	01/01/1999			0	0	0	0	E-6 M
***MAT												
041039WF1		07/01/1999	4.50%	5000	07/01/1999			0	0	0	0	E-6 M
***MAT												
041039WF9		07/01/2000	4.70%	5000	07/01/2000			0	0	0	0	E-6 M
***MAT												
041039WF7		07/01/2001	4.80%	5000	07/01/2001			0	0	0	0	E-6 M
***MAT												
041039WJ3		07/01/2002	4.85%	5000	07/01/2002			280000	280000	0	0	E-6 M
041039WK0		07/01/2003	4.85%	5000	07/01/2002			295000	295000	0	0	E-6 M
041039WL8		07/01/2004	4.90%	5000	07/01/2002			310000	310000	0	0	E-6 M
041039WM6		07/01/2005	5.00%	5000	07/01/2002			325000	325000	0	0	E-6 M
041039WN4		07/01/2006	5.10%	5000	07/01/2002			340000	340000	0	0	E-6 M
041039WP9		07/01/2007	5.15%	5000	07/01/2002			360000	360000	0	0	E-6 M
041039WQ7		07/01/2008	5.20%	5000	07/01/2002			380000	380000	0	0	E-6 M
041039WR5		07/01/2009	5.25%	5000	07/01/2002			400000	400000	0	0	E-6 M
041039WS3		07/01/2010	5.30%	5000	07/01/2002			420000	420000	0	0	E-6 M
041039WT1		07/01/2011	5.35%	5000	07/01/2002			440000	440000	0	0	E-6 M
041039WU8		07/01/2012	5.40%	5000	07/01/2002			465000	465000	0	0	E-6 M
041039WV6		07/01/2013	5.45%	5000	07/01/2002			490000	490000	0	0	E-6 M
041039WW4		07/01/2014	5.50%	5000	07/01/2002			515000	515000	0	0	E-6 M
041039WX2		07/01/2015	5.55%	5000	07/01/2002			545000	545000	0	0	E-6 M
041039XC7		07/01/2020	5.60%	5000	07/01/2002			3210000	3210000	0	0	E-6 M
041039XJ2		07/01/2026	5.70%	5000	07/01/2002			5220000	5220000	0	0	E-6 M

TOTAL CALLED NOT PRESENTED 0

TOTAL MATURED NOT PRESENTED 0

TOT OUTSTANDING BEARER + REG 13995000

TOTAL REG OUTSTANDING 13995000

# ARKANSAS

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2001



# ARKANSAS

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2001



**Mike Huckabee**  
GOVERNOR

**Dick Barclay**  
DIRECTOR  
DEPARTMENT OF FINANCE & ADMINISTRATION

PREPARED BY  
**The Department of Finance & Administration**  
**Office of Accounting**

printed on  
recycled paper





Governor Mike Huckabee



STATE OF ARKANSAS  
OFFICE OF THE GOVERNOR

Mike Huckabee  
Governor

November 27, 2001

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JAN 22 2002  
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To the people of Arkansas and the honorable members of the Arkansas Legislature:

I submit to you the Arkansas Comprehensive Annual Financial Report. We require timely, accurate financial reporting to ensure proper handling of the taxpayers' money. This publication is an important part of our efforts. It provides a complete picture of the state's financial status and is an excellent means of meeting our continuing disclosure responsibilities to the national credit markets.

Arkansas' five previous CAFRs received the Government Finance Officers Association certificate of achievement for excellence in financial reporting. We intend for that record of achievement to grow and serve as an example for the rest of the country when it comes to comprehensive financial reporting.

I want to express my sincere thanks to the dedicated workers at the state Department of Finance and Administration and other state agencies who helped bring this Comprehensive Annual Financial Report to you.

Sincerely yours,

A handwritten signature of Mike Huckabee in black ink.

Mike Huckabee

MH:st





## ACKNOWLEDGMENTS

Report prepared by the Department of Finance and  
Administration Office of Accounting:

Dick Barclay  
Director

Tim Leathers  
Deputy Director/Commissioner of Revenue

Tom Smith, CGFM  
Administrator of Office of Accounting

Financial Reporting Staff:

George Lepper, CPA  
Joe Norton

Special appreciation is given to Mike Kemp, Department of Finance and Administration, who assisted in the preparation of the transmittal letter and in the divider pages. Special appreciation is also given to staff members at the Arkansas Highway and Transportation Department, Arkansas Department of Parks and Tourism, and the Arkansas Governor's Office, who assisted in the design of the cover and divider pages and to all personnel throughout the State, whose extra effort to contribute accurate, timely financial data for their agencies, made this report possible.

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STATE OF ARKANSAS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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INTRODUCTORY SECTION



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# STATE OF ARKANSAS

## PRINCIPAL OFFICIALS

### Elected Officials

Governor  
Mike Huckabee

Lt. Governor  
Winthrop P. Rockefeller

State Treasurer  
Jimmie Lou Fisher

State Auditor  
Gus Wingfield

Secretary of State  
Sharon Priest

Attorney General  
Mark L. Pryor

Land Commissioner  
Charles Daniels

### Legislative Branch

President Pro Tempore  
Mike Beebe

Speaker of the House  
Shane Broadway

### Supreme Court

Chief Justice  
W.H. "Dub" Arnold

Associate Justice  
Robert L. Brown

Associate Justice  
Annabelle Clinton Imber

Associate Justice  
Jim Hannah

Associate Justice  
Donald L. Corbin

Associate Justice  
Tom Glaze

Associate Justice  
Ray Thornton



STATE OF ARKANSAS  
**Department of Finance  
and Administration**

**OFFICE OF THE DIRECTOR**  
1509 West Seventh Street, Suite 401  
Post Office Box 3278  
Little Rock, Arkansas 72203-3278  
Phone: (501) 682-2242  
Fax: (501) 682-1029  
<http://www.state.ar.us/dfa>

November 20, 2001

The Honorable Mike Huckabee, Governor  
The Honorable Members of the Arkansas General Assembly  
The Citizens of Arkansas

It is my pleasure to transmit to you the Comprehensive Annual Financial Report of the State of Arkansas (the State) for the fiscal year ended June 30, 2001. The report has been prepared by the Department of Finance and Administration. Responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures, rests with the Department of Finance and Administration. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the various funds and account groups of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

The report is presented in three sections. The introductory section includes this transmittal letter with narrative commentary on matters of interest to the reader and the State's organizational chart; the financial section includes the independent auditors' report, general purpose financial statements, notes to the financial statements, required supplementary information, combining financial statements by fund type, schedules for account groups and other schedules; the statistical section includes selected financial, economic, and demographic data for the State on a multi-year basis.

All agencies, accounts, departments, boards and commissions that represent the State's reporting entity are included in this report. The criteria used in determining the State's reporting entity are fully discussed in Note 1. The State provides a full range of services including: education, health and human services, transportation, public safety, conservation of natural resources, economic development and regulation of businesses and professionals.

#### **ECONOMIC CONDITION AND OUTLOOK**

**Real Output.** In FY 2001, real output (1996\$) of final goods and services, is estimated at \$65,950 million, an increase of 2.8 percent or \$1,810 million over FY 2000. Following September 11, 2001, FY 2002 real output is now estimated at \$66,641 million, an increase of 1.05 percent, or \$691 million.

**State Personal Income.** Personal income consists of wages and salaries, dividends, interest, rent and transfer payments such as social security and other retirement incomes. Personal income does not include realized capital gains from the sale of assets.

Personal income is measured in current dollars and reached a total of \$60,612 million in FY 2001. This represented an increase of \$2,632 million or 4.5 percent over FY 2000.

Following September 11, 2001, state personal income for FY 2002 is estimated at \$61,933, an increase of \$1,321 million or 2.2 percent over FY 2001.

**FY 2001 Net Available General Revenues.** Actual net available general revenues distributed totaled \$3,258.98 million. This amount is \$83.4 million or 2.6 percent above the net available distribution of FY 2000.

**Employment.** In FY 2001, non-agricultural payroll employment expanded by 12,100 jobs or 1.0 percent over FY 2000. The level of employment set a record of 1,165,400 jobs. The revised forecast for the current FY 2002 expects a decline of 9,000 payroll jobs or an 0.8 percent decline from FY 2001.

Manufacturing employment declined in FY 2001 by 4,960 jobs or 2.0 percent. The revised manufacturing employment estimate for FY 2002 is a further decline of 16,750 jobs or 6.8 percent. The estimated level of manufacturing employment for FY 2002 is 230,670 jobs.

**FY 2002 Net Available General Revenues.** Net available general revenues are now estimated at \$3,249.7 million. This amount is \$9.3 million or 0.3 percent below actual collections of FY 2001. Compared to the March 29, 2001 forecast, the new forecast reduces net available revenues by \$142.0 million or 4.2 percent. The reduction eliminates \$129.2 million or all of Category B, and \$12.8 million or 0.4% of Category A under the Revenue Stabilization Law. This means 99.6% of Category A is funded effective November 15, 2001.

**U.S. and Arkansas Real Growth.** The national forecasting firm, Data Resources Incorporated-Wharton Econometric Forecasting Associates, expects a shallow recession with real growth in output of goods and services expected to resume in the second quarter (April - June) of CY 2002. But for all of FY 2002, real growth is estimated at 0.05%. In FY 2003, U.S. real growth is estimated at 3.6 percent. Arkansas will follow a similar path.

Consumer confidence, lower interest rates, increased federal spending, no further terrorist attacks, and military success are the keys to the depth and length of this recession. If these key assumptions are met, then the U.S. and Arkansas recoveries will most likely be under way in FY 2003 or sooner.

## **MAJOR INITIATIVES**

### **Tax Reform and Tax Relief**

On November 7, 2000, Arkansas voters approved an amendment to the State Constitution that provides a property tax credit of up to \$300 for homeowners. Act 1492 of 1999 stipulated that if voters approved Amendment 2, the state sales tax would increase ½ cent on January 1, 2000, to fund the Amendment. Actions of the 82<sup>nd</sup> General Assembly and the Governor resulted in significant accomplishments in tax reform and tax relief. Property tax refunds were increased, a Property Taxpayers' Bill of Rights was established, a law was passed requiring a county assessor to give notice to a property owner at least 45 days before a reappraisal, as well as a host of other property tax reform measures. Act 1185 of 1999 requires each county to institute a system of regular revaluation of all real estate. The revaluation efforts will be funded by the State. Counties have the option to conduct their own revaluation programs or contract the work to private firms. In either case, counties must adhere to new standards that ensure fairness and equity. Any assessment increases resulting from the revaluation efforts will be phased in over three years.

Several measures passed and signed by the Governor provide for income tax reform and relief, in particular to encourage saving and provide relief through changes in dependent tax credits and the state income tax credit for household and dependent care. Finally, Act 1005 of 1999 excludes the first 30% of a capital gain from the state individual income tax.

### **Highways and Transportation**

Three hundred eighty miles of interstate highways in Arkansas will be rebuilt during the five-year Interstate Rehabilitation Program ("IRP") that is now underway. This is the most ambitious highway rehabilitation project ever undertaken in Arkansas, and will result in a multitude of benefits for all Arkansans and for



others who use the interstate highways. The benefits of this historic undertaking include safer travel, earlier project completion, less wear and tear on vehicles and more efficient movement of goods and services. All Arkansans will share the benefits of the program in many ways.

An example of the massive scope of the program can be seen in a comparison of the amount of work done on interstate highways prior to the IRP and the amount being undertaken as part of the program. For example:

- With the IRP, the Highway and Transportation Department will average about 125 miles of interstate reconstruction in each of the next two years compared to a rate of 15 miles re-done in years prior to 2000.
- All 284 miles of Interstate 40 were originally constructed at a cost of less than \$1 million per mile, yet current reconstruction costs will be between \$2 million and \$3 million per mile.
- It took about 20 years and \$837 million to construct the 542 miles of interstates in Arkansas, excluding Interstate 530 and the new section of Interstate 540. It will take approximately five years and \$950 million to reconstruct 69 percent of those interstate miles with the Interstate Rehabilitation Program.

By 2002, all 380 miles of construction work will be underway, with completion scheduled by 2005. The Interstate Rehabilitation Program is possible through an innovative financing concept known as Grant Anticipation Revenue Vehicles. The Arkansas State Highway Commission will be able to use future federal funds to retire \$575 million worth of bonds as passed by the Arkansas General Assembly and approved 4 to 1 by Arkansas voters in 1999. Repayment will also come from required state matching funds and the proceeds from a phased-in 4-cent-a-gallon increase in the state tax on diesel fuel.

### **Arkansas Administrative Statewide Information System**

Arkansas is the first state in the country to integrate all its accounting and budgetary functions, human resources functions and various means of communication with the public into a single innovative system. No other state has implemented or is in the process of implementing as many applications as currently planned by the State of Arkansas. The Arkansas Administrative Statewide Information System ("AASIS") standardizes, integrates and streamlines the financial and administrative functions of Arkansas State Government. It will enable performance based budgeting, activity-based costing, and provide enhanced reporting capabilities for the State's decision-makers. AASIS automates many manual functions; distributes and reduces redundant data entry; simplifies storage and processing; improves financial controls; and enhances the value and availability of information provided to State agency executives, the Governor, the Legislature, and the people of Arkansas. It employs electronic procurement solutions to achieve efficiency in interacting with business partners and reduces or eliminates paper documentation. AASIS implements a solution based on proven, state-of-the-art technologies that can migrate to technologies of tomorrow. It implements secure self-service web-enabled solutions whereby employees, retirees, and fiduciaries have direct access to necessary personnel, payroll, benefit, and retirement information, plus builds a framework to enhance the public's access to information. The AASIS system brings Arkansas state agencies together for the good of all taxpayers and employees.

### **ARTAX**

The Office of Excise Tax Administration launched a new Internet Filing System for Excise Tax reports, effective August 9, 2000. The online filing process for monthly reports benefits everyone from multi-state corporations to sole proprietors. Other types of taxes such as state income tax withholding will be available

online in the future. Two vendors are currently providing filing services over the web. The first vendor is Nationtax<sup>®</sup> Online from Birmingham, Alabama. The second vendor, *Artax*, is a product of the efforts of the Department of Finance and Administration and Information Network Arkansas. *Artax* is a filing service for Arkansas reporting only. Both providers have step-by-step online demonstrations of their services available.

There are links to both providers from the Department's Sales & Use Tax website: <http://www.state.ar.us/dfa/taxes/salestax/index.html>. Both service providers allow the taxpayer to enter sales information and then the program calculates the tax due or tax refund. This will reduce calculation errors in completing the report. Tele-file is a similar paper less program that allows Sales and Use Tax permit holders to file a monthly report of zero sales over the telephone. Tele-file receives approximately 5,000 reports per month.

## Education

Governor Mike Huckabee proposed a \$3,000 a year raise for Arkansas teachers as part of his balanced budget proposal which was approved by the Legislature. The Governor's plan increased teacher salaries \$1,000 during the first year of the new biennium, then increased teacher salaries another \$2,000 the second year of the new biennium.

The Governor proposed far reaching legislation in the area of education that was passed during the 82<sup>nd</sup> General Assembly. Understanding that a child's academic foundation must be strong and solid, Governor Mike Huckabee launched Smart Start. This comprehensive initiative focuses on improving reading and mathematics achievement for all students in grades K-4. Through this effort, the goal is to have all students performing at grade level by the end of grade 4.

Smart Start, with a budget of \$8.4 million, is one part of the Arkansas Comprehensive Testing, Assessment, and Accountability Program, a system covering pre-kindergarten through twelfth grade and incorporating the recommendations of the 1998 Excellence in Arkansas Public Education Task Force

Through advanced technology, Arkansas students excel in rural as well as urban school districts. Sixty Arkansas high schools offer Environmental and Spatial Technology ("EAST"), a nationally acclaimed program supported by a collaborative partnership involving Intergraph Corporation, several universities and the Arkansas Department of Education. In project-based lab classes, students use geographic information systems ("GIS") and computer-aided design to develop real-world applications for community projects.

Secondary vocational education is available to every public school student in the State, either at the high school or a secondary area vocational center that serves students from surrounding school districts. Career Orientation, which introduces students to different careers and to workplace expectations, is required of every student at the junior high school level as a prerequisite for all programs of study/career majors developed by the Department of Workforce Education.

Arkansas is restructuring high school vocational education to help students make a smoother transition from school to postsecondary education and/or the workplace. Career Opportunities, High Schools that Work, and Youth Apprenticeship are part of this systemic change that provides students with academically challenging courses.

Proposals passed during the 82<sup>nd</sup> General Assembly will have long lasting effects for higher education. Act 858 of 1999 raises the family income limit on the Academic Challenge Scholarship Program. This will allow more students to attend college and will encourage Arkansans to attend college in state. Act 1158 of 1999 requires the Workforce Education and Career Opportunities Board to develop a performance-based accountability system for post-secondary and technical institutions. Act 652 of 1999 establishes the Arkansas Technical Careers Loan Forgiveness Program to assist students who will fill special needs areas in the technical skill fields.

### **Economic Development**

In an increasingly competitive environment for economic development that includes nationwide competition for high paying jobs, Arkansas' economic development efforts have been retooled and refocused with remarkable results for the future of the State. Act 995 of 1999 amends the Manufacturers Investment Tax Credit Act of 1985 to expand eligibility to include businesses engaged in a variety of services. Income tax credits were passed for eligible businesses undertaking large capital investment or job-creation projects, and for companies purchasing or constructing a facility that designs, develops or produces electric vehicles or the fuel cells that power them. Another program, established by Act 448 of 1999, creates a two-year pilot program operated by the Department of Economic Development that makes participation loans in amounts from \$5,000 to \$80,000 to small business owners in the State.

### **Law Enforcement, Criminal Justice, and Juvenile Justice Reform**

Government's most basic role is to keep our communities safe. The March 1998 shootings at Westside Middle School near Jonesboro and problems with the juvenile justice system prompted the Governor to propose legislation passed by the 82<sup>nd</sup> General Assembly. Act 1192 of 1999 authorizes juvenile judges to impose adult sanctions on offenders younger than 13 if convicted of capital or first-degree murder and judged competent to stand trial. It also allows 14 and 15 year olds convicted of a violent crime to receive adult sanctions. Significant funds were provided to the Department of Human Services - Division of Youth Services to address adequate facility and equipment needs of supervising young offenders.

Act 565 of 1999 allows, at a prosecutor's request, state Crime Lab analysts to testify in court by two-way closed-circuit or satellite-transmitted television. Legislation was passed to address a plan for a statewide radio system. To add to the State's infrastructure for training law enforcement officers, Act 688 of 1999 authorizes construction of the Northwest Arkansas satellite training facility. Act 1213 of 1999 provides personnel and equipment for the Western Regional Drug Laboratory.

### **Family Issues**

The Administration had clear recommendations in the areas of adoption reform and divorce reform for consideration by the 82<sup>nd</sup> General Assembly and had great success in passing several significant laws. Compliance with the federal Adoptions and Safe Families Act was accomplished with passage of Act 401 of 1999. Act 704 of 1999 allows judges to require divorcing parents of minors to complete two hours of parenting classes or require them to take part in divorce mediation.

Act 328 of 1999 extends subsidy payments from age 18 to 21 if a child has a documented disability that prevents him from living independently. Act 517 of 1999 amends the guardianship statute to comply with the Adoption and Safe Families Act. It allows any parent who is chronically ill or near death, without surrendering parental rights, to have a standby guardian appointed by the court. Finally, Act 518 of 1999 amends the adoption code to allow foster children to be adopted by their foster parents more quickly when they have been living in the home six months or longer.

### **Health and Human Services**

Continuing the progress made in recent years, the Governor recommended passage of Act 849 of 1999, which changed the ARKids First Program from a pilot program to a permanent program. Originally passed in 1997, ARKids First provides preventive health care insurance to the children of those making up to 200% of the poverty level. There are more than 175,000 children already insured through the program. Act 1181 of 1999 established a Nursing Home Patients' Bill of Rights.

### **Government Efficiency and Anti-Corruption**

Significant strides were made during the 82<sup>nd</sup> General Assembly toward improvements in government efficiency and anti-corruption legislation. The Governor signed into law several acts addressing these areas. Act 1061 of 1999 authorizes the Department of Finance and Administration to implement the Career Ladder Incentive Program for state employees. This legislation is complemented by passage of Act 221 of 2001, which for the first time in the state of Arkansas provides for a performance-based budgeting and accountability system. A major project paving the way for implementation of Performance-Based Budgeting is authorization of a new statewide integrated information system.

Anti-corruption legislation was passed to protect public employees from retaliation by their employers when an employee has told the appropriate authority about a violation of the law or a waste of public money, property or manpower. Act 34 of 1999 prohibits constitutional officers, legislators and their spouses from receiving employment during and two years after their term in office. It prohibits job enhancement if the constitutional officer, legislator or spouse has a state job prior to the term in office. It also restricts constitutional officers, legislators and their spouses from entering into contracts and lease agreements or receiving grants unless the contract, lease or grant involves a competitive bid.

### **FINANCIAL MANAGEMENT**

The financial statements of the State are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires that specific fund types be used on the combined balance sheet.

There are four categories of funds. The first category is the governmental fund. The general fund is used to account for all general government activities not accounted for in another fund and is the only governmental fund currently in use.

The proprietary fund is used to account for activities similar to the private sector, where the determination of net income is necessary or useful for sound financial administration. A component of the proprietary fund is the enterprise fund which provides goods and services to outside parties.

The fiduciary fund is used to account for assets held on behalf of outside parties or other funds within the government. When assets are held under the terms of a formal trust agreement, a pension trust fund or expendable trust fund is used. The term "expendable" refers to the ability of the governing agent to spend the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.

The higher education fund presents the State supported colleges and universities in accordance with the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, and guidance as outlined by the National Association of College and University Business Officers and Governmental Accounting Standards Board.

Under GAAP, fund balance represents the excess of assets over liabilities. Therefore, it is possible for fund balance to remain unchanged while cash balances decrease or increase. In addition, certain amounts of fund balances may be reserved or "not spendable."

### **Internal Controls**

The management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and that adequate accounting data is compiled to allow the preparation of the financial statements in conformity with GAAP. The internal control structure has been designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the reliability of financial records for preparing financial statements, and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

## Budgetary Control

Budgetary control is maintained through legislative appropriation. Agencies submit budgetary requests to the Department of Finance and Administration. The Department of Finance and Administration compiles the executive budget on behalf of the Governor who submits it to the Legislature. The Department of Finance and Administration maintains control over the spending patterns of the State after the approval of the budget through control at the line-item level. See Note 2 (Budgetary Basis Reporting - Budgetary Process) for further discussion of budgetary controls.

## General Government Functions

Most State functions are financed through the general fund. The State's most significant sources of revenues in the general fund (GAAP basis) are taxes and intergovernmental. The State's most significant areas of expenditures from the general fund (GAAP basis) are the areas of public and higher education and health and human resources. The following charts present actual general fund (GAAP basis) revenues and expenditures for the fiscal year ended June 30, 2001 (expressed in thousands):

Revenues	2001	2000	Increase (Decrease) Percent
Personal income tax	\$ 1,544,526	\$ 1,454,548	6.19 %
Consumer sales tax	1,647,333	1,622,476	1.53 %
Corporate net income tax	159,700	215,562	(25.91)%
Gas and motor carrier tax	257,407	285,113	(9.72)%
Other taxes	373,688	349,969	6.78 %
Intergovernmental	2,882,725	2,613,654	10.29 %
Other revenues	<u>1,210,778</u>	<u>1,026,215</u>	<u>17.98 %</u>
Total	<u>\$ 8,076,157</u>	<u>\$ 7,567,537</u>	<u>6.72 %</u>

REVENUE BY SOURCE FOR GENERAL FUND - 2001



- Personal income tax
- Consumer sales tax
- Corporate net income tax
- Intergovernmental
- Other taxes
- Gas and motor carrier tax
- Other revenues

Expenditures	2001	2000	Increase (Decrease) Percent
Education	\$ 2,172,021	\$ 2,098,860	3.49 %
Health and human services	2,984,687	2,698,687	10.60 %
Transportation	788,416	622,061	26.74 %
Law, justice and public safety	509,428	333,211	52.88 %
Recreation and resource development	196,734	203,358	(3.26)%
General government	602,855	587,147	2.68 %
Regulation of businesses and professionals	120,189	161,703	(25.67)%
Debt service	69,841	77,244	(9.58)%
Capital outlay	<u>132,485</u>	<u>142,227</u>	<u>(6.85)%</u>
Total	<u>\$ 7,576,656</u>	<u>\$ 6,924,498</u>	<u>9.42 %</u>

EXPENDITURES FROM GENERAL FUND - 2001



- Education
- Capital outlay
- Transportation
- Regulation of businesses and professionals
- Health and human resources
- Law, justice and public safety
- General government
- Recreation and resource development
- Debt service

Governmental revenues increased by 6.72 %, reflecting additional personal income tax revenue and consumer sales tax revenue of approximately \$90 million and \$25 million, respectively. Intergovernmental revenues increased by approximately \$269 million due primarily to increased fundings from the Department of Health Education and Welfare for the Medicaid Program and Federal Emergency Management Agency fundings for ice storm damage recovery.

Expenditures increased in fiscal year 2001 by 9.42% as the demand for governmental services rose. The principal reasons for the increase is due primarily to increases in health and human services, transportation, and law, justice and public safety.

### **Proprietary and Fiduciary Funds**

The State's enterprise operations include the Workers' Compensation Commission, the Construction Assistance Revolving Loan Fund, and Other Revolving Loan Funds. Since it is the intent of these programs to primarily recover operating costs (including depreciation) through user charges, they utilize an accrual basis of accounting with a measurement focus on the flow of economic resources.

Fiduciary funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include the expendable trust, pension trust and agency funds. Trust funds are established through trust agreements specifying how the funds will operate. Agency funds are custodial in nature and do not report fund balances. The trust funds include the Employment Security Division, Arkansas Judicial Retirement Plan, Arkansas Teacher Retirement Plan, Arkansas State Police Retirement Plan, Arkansas Highway Retirement Plan and Arkansas State Employees Retirement Plan. Agency funds include the State Insurance Department and Other Agencies.

### **Component Units**

The component units include the accounts of Arkansas Student Loan Authority and Arkansas Development Finance Authority. These authorities are legally separate entities that are not operating departments of the State and are managed independently with their powers generally vested in a governing board. Each authority is established for a specific purpose, such as education and economic development.

Combined operating revenues and expenses for the State's authorities amounted to approximately \$164 million and \$131 million, respectively, for fiscal year 2001. The total combined amount of retained earnings at fiscal year end was approximately \$171 million.

### **Debt Administration**

The Constitution of the State of Arkansas does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or special election held for that purpose. The total outstanding general obligation bonded indebtedness, including special obligation and other debt instruments, of the governmental fund types of the State as of June 30, 2001, was approximately \$558 million. Arkansas currently has a rating of Aa2 from Moody's Investors Service and a rating of AA from Standard and Poors.

### **Cash Management**

State funds are invested by the Treasurer and also by various state agencies, including the retirement systems and institutions of higher education. Permissible investments include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government Obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

### **Risk Management**

The State manages risk with a combination of self-insurance and commercial policies. The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies.

The State also established the State Employees Insurance Advisory Committee (the Committee) by Act 48 of 1972 and allowed the Committee to pursue self-funding activities by Act 576 of 1975. The Committee provides comprehensive major medical care, prescription drug and life insurance for employees of the State and its participating component units, as well as their dependents, through the establishment of a variety of self-insured plans. The Committee also makes medical coverage available to retirees should they elect to continue such coverage at their own expense.

### **Audit**

The firm of Deloitte & Touche LLP performed the audit for the fiscal year ended June 30, 2001. Auditing standards generally accepted in the United States of America were used by the auditors in conducting the engagement. The auditors' report on the general purpose financial statements is included in the financial section of this report.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arkansas for its Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2000. This was the fifth consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

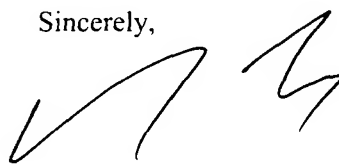
A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to conform to the Certificate of Achievement program requirements, and are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

Recognition for the leadership of accurate and timely financial reporting lies with Governor Mike Huckabee. He has made fiscal responsibility a high priority in his administration and his leadership has been crucial to the project's success. Governor Huckabee believes that this project will provide overall improvements in government accountability. It will save the State interest expense by providing market analysts, potential investors and others with complete, comparable financial information. It will provide the Legislature and others in key positions that require them to make financial decisions with clear, concise and complete financial data that is free of ambiguities or any misleading facts. The Governor's commitment to this project, especially his support of continued funding, demonstrates his firm belief in our continuing progress.

This report also would not be possible without the support of all state agencies that provided GAAP closing data on a timely basis. The future success of this project directly depends upon their continued cooperation and support as well.

Sincerely,



Dick Barclay  
Director





# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of  
Arkansas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000

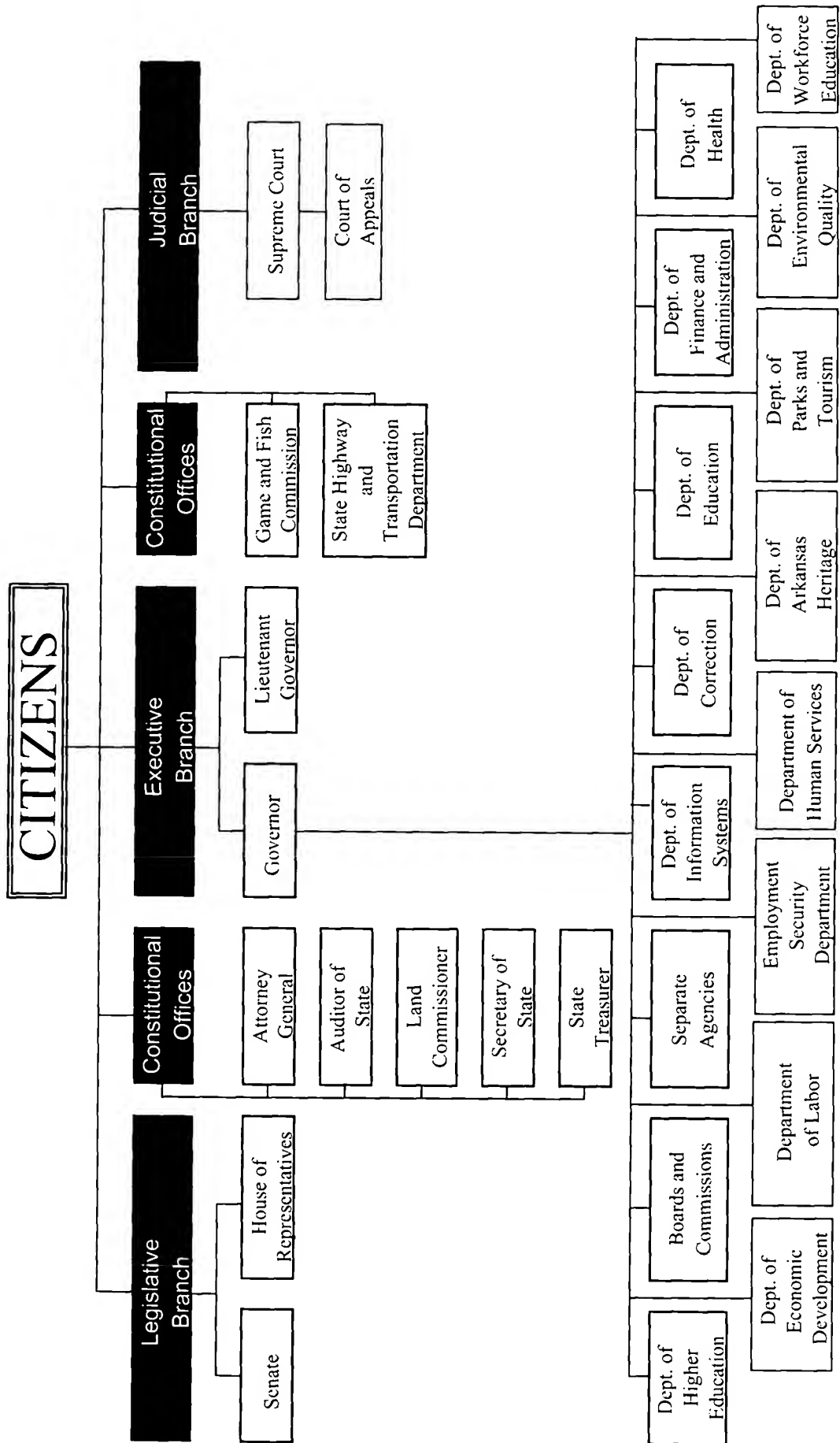
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Thomas A. Brown*  
President

*Jeffrey L. Esser*  
Executive Director

# State of Arkansas Organizational Chart



FINANCIAL SECTION



Chat online with  
Governor Huckabee or  
send him an e-mail.

Arkansas Governor's Office



[www.accessarkansas.org/governor](http://www.accessarkansas.org/governor)



Deloitte & Touche LLP  
Suite 1800  
111 Center Street  
Little Rock, Arkansas 72201

Tel: (501) 370 3600  
Fax: (501) 374 4809  
Fax: (501) 375 7817  
www.us.deloitte.com

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JAN 22 2002

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## INDEPENDENT AUDITORS' REPORT

The Honorable Mike Huckabee, Governor  
of the State of Arkansas

We have audited the accompanying general purpose financial statements of the State of Arkansas (the "State"), as of June 30, 2001, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the State. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Arkansas Student Loan Authority, which represent total assets of \$301.4 million as of June 30, 2001, and total revenues of \$21.8 million for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those activities, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type and discretely presented component units for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules, listed in the foregoing table of contents, are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the State. These financial statements and schedules are also the responsibility of the management of the State. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

The introductory and statistical data listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State. Such additional information has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on it.

*Deloitte & Touche LLP*

November 20, 2001

GENERAL PURPOSE  
FINANCIAL STATEMENTS



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**Combined Balance Sheet**  
**All Fund Types, Account Groups and Component Units**  
**June 30, 2001**  
**(Expressed in Thousands)**

	Governmental Fund Type	Proprietary Fund Type	Fiduciary Fund Type
	General	Enterprise	Trust and Agency
<b>ASSETS AND OTHER DEBITS:</b>			
Cash and cash equivalents	\$1,318,981	\$204,753	\$ 846,827
Investments	202,862	37,678	14,360,530
Receivables, net:			
Accounts		8,561	53,289
Taxes	290,956		
Employer			6,573
Employee			7,388
Notes and deposits	38,722		
Medicaid	135,174		
Loans	173,733	189,964	
Investment related	11,789	1,261	323,934
Due from other governments	40,853		6,708
Due from other funds - primary government	214		953
Due from other funds - higher education			
Advances to other funds - primary government	14,769		20,705
Inventories	28,200		
Fixed assets, net		3,004	1,378
Other assets	211	9,837	75
Amount available for debt service			
Amount to be provided for debt retirement			
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u><b>\$2,306,397</b></u>	<u><b>\$455,058</b></u>	<u><b>\$15,628,360</b></u>
<b>LIABILITIES, EQUITY AND OTHER CREDITS:</b>			
Liabilities:			
Accounts payable	\$ 58,723	\$ 1,111	\$ 1,400
Accrued and other liabilities	43,997	10,763	1,962,140
Deferred revenues	15,735	3,747	
Due to other governments	66,687		4,142
Due to other funds - primary government	6,563		126
Due to other funds - higher education			
Advances from other funds - primary government	20,705		
Workers' compensation benefits payable		173,736	
Medicaid claims payable	185,119		
Tax refunds and abatements payable	69,449		
Claims and judgments payable	8,600		
Agency liabilities			463,998
Capital leases		1,806	
Notes payable			
Revenue bonds payable			
Special obligation bonds payable		111,061	
General long-term debt payable			
Total Liabilities	<u>475,578</u>	<u>302,224</u>	<u>2,431,806</u>
Equity and other credits:			
Investment in fixed assets			
Retained earnings - unreserved		3,810	
Retained earnings - reserved for bond programs			
Contributed capital		149,024	
Fund balances:			
Reserved:			
Loans	173,733		
Advances to other funds	14,769		
Inventories	28,200		
Capital projects	99,042		
Higher education			
Unemployment compensation			220,213
Net assets held in trust for pension benefits			12,976,341
Debt service	45,974		
Unreserved:			
Designated	1,469,101		
Undesignated			
Total Equity and Other Credits	<u>1,830,819</u>	<u>152,834</u>	<u>13,196,554</u>
<b>TOTAL LIABILITIES, EQUITY AND OTHER CREDITS</b>	<u><b>\$2,306,397</b></u>	<u><b>\$455,058</b></u>	<u><b>\$15,628,360</b></u>

The accompanying notes are an integral part of the financial statements.



Higher Education Fund Type	Account Groups		Total Primary Government	Component Units
	Fixed Assets	Long-Term Debt	(Memorandum Only)	
Colleges and Universities				
\$ 323,545			\$ 2,694,106	\$ 118,486
634,866			15,235,936	1,206,296
167,457			279,240	2,195
			290,956	
			6,573	
			7,388	
54,937			93,659	
			135,174	
			363,697	626,979
1,542			338,526	16,348
			47,561	
5,610			6,777	
12,963			12,963	
			35,474	
15,122			43,322	
2,532,185	\$1,262,955		3,799,522	514
12,395			22,518	80,354
		\$ 45,974	45,974	
		821,684	821,684	
<u>\$3,760,622</u>	<u>\$1,262,955</u>	<u>\$867,658</u>	<u>\$24,281,050</u>	<u>\$2,051,172</u>
\$ 70,791			\$ 132,025	\$ 8,279
395,468			2,412,368	82,008
23,330			42,812	
			70,829	
88			6,777	
12,963			12,963	
14,769			35,474	
			173,736	
			185,119	
			69,449	
			8,600	
			463,998	
12,025			13,831	
15,217			15,217	7,530
451,271			451,271	271,823
			111,061	1,510,217
		\$867,658	867,658	
<u>995,922</u>		<u>867,658</u>	<u>5,073,188</u>	<u>1,879,857</u>
2,116,942	\$1,262,955		3,379,897	
			3,810	
				63,978
				107,337
			149,024	
			173,733	
			14,769	
			28,200	
			99,042	
340,347			340,347	
			220,213	
			12,976,341	
			45,974	
			1,469,101	
<u>307,411</u>			<u>307,411</u>	
<u>2,764,700</u>	<u>1,262,955</u>		<u>19,207,862</u>	<u>171,315</u>
<u>\$3,760,622</u>	<u>\$1,262,955</u>	<u>\$867,658</u>	<u>\$24,281,050</u>	<u>\$2,051,172</u>

# **Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types and Expendable Trust Fund**

**For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)**

	Governmental Fund Type	Fiduciary Fund Type
	General	Expendable Trust
REVENUES:		
Taxes:		
Personal income	\$ 1,544,526	
Consumer sales	1,647,333	
Corporate net income	159,700	
Gas and motor carrier	257,407	
Unemployment		\$197,183
Other	373,688	
Intergovernmental	2,882,725	
Licenses, permits and fees	480,698	
Investment earnings	107,074	17,202
Other	<u>623,006</u>	
Total Revenues	<u>8,076,157</u>	<u>214,385</u>
EXPENDITURES:		
Current:		
Education	2,172,021	
Health and human resources	2,984,687	
Transportation	788,416	
Law, justice and public safety	509,428	
Recreation and resource development	196,734	
General government	602,855	
Regulation of businesses and professionals	120,189	269,014
Debt service	69,841	
Capital outlay	<u>132,485</u>	
Total Expenditures	<u>7,576,656</u>	<u>269,014</u>
Excess of revenues over (under) expenditures	499,501	(54,629)
OTHER FINANCING SOURCES (USES):		
Proceeds from long-term obligations	31,874	
Proceeds from capital leases	3,422	
Operating transfers in	658	
Operating transfers out	<u>(614,579)</u>	
Total Other Financing Uses	<u>(578,625)</u>	
REVENUES AND OTHER SOURCES UNDER EXPENDITURES AND OTHER USES	<u>(79,124)</u>	
FUND BALANCE AT BEGINNING OF YEAR	<u>1,913,445</u>	<u>274,842</u>
Decrease in reserve for inventory	<u>(3,502)</u>	
FUND BALANCE AT END OF YEAR	<u>\$ 1,830,819</u>	<u>\$220,213</u>

The accompanying notes are an integral part of the financial statements.

# Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual-Variance (Budgetary Basis) General Fund

For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)

	General Fund		
	Budget	Actual	Variance Favorable
REVENUES:			
Taxes:			
Personal income	\$ 1,804,736	\$ 1,804,736	
Consumer sales	1,696,176	1,696,176	
Corporate net income	250,545	250,545	
Gas and motor carrier	431,737	431,737	
Use	606,416	606,416	
Other	893,538	893,538	
Intergovernmental	2,704,784	2,704,784	
Licenses, permits and fees	472,432	472,432	
Investment earnings	97,563	97,563	
Other	676,939	676,939	
Total Revenues	9,634,866	9,634,866	
EXPENDITURES:			
Current:			
Education	2,262,627	2,193,840	\$ 68,787
Health and human resources	2,946,077	2,813,929	132,148
Transportation	1,591,983	778,501	813,482
Law, justice and public safety	562,892	528,635	34,257
Recreation and resource development	427,450	219,442	208,008
General government	4,945,148	2,145,410	2,799,738
Regulation of businesses and professionals	178,941	135,092	43,849
Debt service	90,134	36,109	54,025
Capital outlay	291,852	136,087	155,765
Total Expenditures	13,297,104	8,987,045	4,310,059
Excess of revenues over (under) expenditures	(3,662,238)	647,821	4,310,059
OTHER FINANCING SOURCES (USES):			
Operating transfers in	9,965,624	9,965,624	
Operating transfers out	(10,567,640)	(10,567,640)	
Total Other Financing Uses	(602,016)	(602,016)	
REVENUES AND OTHER SOURCES (USES) OVER (UNDER) EXPENDITURES AND OTHER USES	(4,264,254)	45,805	4,310,059
FUND BALANCE AT BEGINNING OF YEAR	1,913,445	1,913,445	
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (2,350,809)	\$ 1,959,250	\$ 4,310,059

The accompanying notes are an integral part of the financial statements.

**Combined Statement of Revenues, Expenses and  
Changes in Retained Earnings (Deficit)  
Proprietary Fund Type and Discretely Presented Component Units**

**For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)**

	<u>Proprietary Fund Type</u>	<u>Component Units</u>
	<u>Enterprise</u>	<u>Proprietary Fund</u>
OPERATING REVENUES:		
Licenses, permits and fees	\$ 7,445	
Investment earnings	13,661	\$163,022
Insurance tax	10,432	
Other	<u>699</u>	<u>1,277</u>
Total Operating Revenues	<u>32,237</u>	<u>164,299</u>
OPERATING EXPENSES:		
General and administrative	27,311	24,879
Interest	5,903	100,561
Depreciation	174	
Amortization	262	
Other	<u>          </u>	<u>5,800</u>
Total Operating Expenses	<u>33,650</u>	<u>131,240</u>
Operating Income (Loss)	<u>(1,413)</u>	<u>33,059</u>
NON-OPERATING REVENUES (EXPENSES):		
Grants, entitlements, and shared revenues		13,339
Investment earnings	8,323	
Interest	<u>(124)</u>	<u>          </u>
Total Non-Operating Revenue	<u>8,199</u>	<u>13,339</u>
Income Before Operating Transfers	<u>6,786</u>	<u>46,398</u>
OPERATING TRANSFERS -		
Operating transfers out	<u>(658)</u>	<u>          </u>
NET INCOME	<u>6,128</u>	<u>46,398</u>
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	<u>(2,318)</u>	<u>124,917</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 3,810</u>	<u>\$171,315</u>

The accompanying notes are an integral part of the financial statements.

**Combined Statement of Cash Flows**  
**Proprietary Fund Type and Discretely Presented Component Units**  
**For the Fiscal Year Ended June 30, 2001**  
**(Expressed in Thousands)**

	<u>Proprietary Fund Type</u>	<u>Component Units</u>
	<u>Enterprise</u>	<u>Proprietary Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (1,413)	\$ 33,059
Adjustments to reconcile operating loss to cash provided (used) by operating activities:		
Depreciation, accretion and amortization, net	23	(10,001)
Provision for arbitrage rebate		5
Net depreciation on investments	(1,143)	(38,631)
Provision for loan loss		5,200
Loss on disposal of assets	3	
Changes in operating assets and liabilities:		
Accounts receivable	334	773
Accrued rent receivable		76
Loans receivable		(38,082)
Investment related receivable	1,895	(1,183)
Other assets	20	11
Accounts payable and accrued expenses	81	(2,904)
Workers' compensation benefits payable	3,535	
Other liabilities	(15)	(3,119)
Net Cash Provided (Used) by Operating Activities	<u>3,320</u>	<u>(54,796)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Operating transfers out to other funds	(658)	
Net change in note payable		7,530
Proceeds from issuance of bonds		286,829
Repayment of bonds	(3,705)	(196,251)
Payment of debt issuance costs		(1,546)
Collection of financing fees		1,076
Interest expense	(125)	
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(4,488)</u>	<u>97,638</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital lease obligation	(120)	
Loan cost of issuance paid by borrowers	137	
Proceeds from grants, entitlements, and shared revenues	14,092	13,339
Acquisition of capital assets	(39)	(28)
Net Cash Provided by Capital and Related Financing Activities	<u>14,070</u>	<u>13,311</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(4,946)	(1,230,300)
Investment earnings	8,323	
Proceeds from sales and maturities of investments	21,980	1,112,288
Net increase in short-term investments		(21,518)
Loan disbursements	(20,797)	(37,702)
Principal repayments on loans	10,952	71,740
Capital lease disbursements		(196)
Direct financing lease disbursements		(304)
Principal repayments on capital leases		7,856
Net Cash Provided (Used) by Investing Activities	<u>15,512</u>	<u>(98,136)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>28,414</b>	<b>(41,983)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>176,339</u>	<u>160,469</u>
End of year	<u>\$ 204,753</u>	<u>\$ 118,486</u>

The accompanying notes are an integral part of the financial statements.

# **Combined Statement of Changes in Plan Net Assets Held in Trust for Pension Benefits Pension Trust Funds**

**For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)**

	<u>Fiduciary Fund Type</u>
	<u>Pension Trust</u>
ADDITIONS:	
Contributions:	
Employer	\$ 307,619
Employee	<u>76,612</u>
Total Contributions	<u>384,231</u>
Investment income (loss):	
Net depreciation in fair value of investments	(809,380)
Interest	302,589
Dividends	77,698
Real estate operating income	7,508
Other	83,823
Less investment expense	<u>(134,293)</u>
Net Investment Loss	<u>(472,055)</u>
Other additions -	
Miscellaneous revenues	<u>8,361</u>
TOTAL ADDITIONS (LOSSES)	<u>(79,463)</u>
DEDUCTIONS:	
Annuity benefits	509,798
Refunds of employee contributions	4,497
Administrative expenses	12,329
Other deductions	<u>615</u>
TOTAL DEDUCTIONS	<u>527,239</u>
NET DECREASE	(606,702)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT BEGINNING OF YEAR	<u>13,583,043</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT END OF YEAR	<u>\$12,976,341</u>

The accompanying notes are an integral part of the financial statements.



# **Combined Statement of Changes in Fund Balances Higher Education Fund Type**

**For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)**

	Current Funds			Endowment and Similar
	Unrestricted	Restricted	Loan	
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	\$ 437,414			
Auxiliary enterprises, hospitals and clinics	602,844			
Gifts and grants		\$ 348,201	\$ 379	\$ 1,438
Investment earnings		165	1,514	(4,802)
Additions to plant facilities				
Retirement of indebtedness				
Bond proceeds				
Other additions		2,637	1,486	15
Total Revenues and Other Additions	1,040,258	351,003	3,379	(3,349)
EXPENDITURES AND OTHER DEDUCTIONS:				
Education and general	997,873	354,340		
Auxiliary enterprises, hospitals and clinics	499,594	958		
Loan cancellations and write-offs			1,711	
Indirect cost recoveries		3,987		
Administration expenses			416	99
Refunded to grantors		673	22	
Retirement of indebtedness				
Expended for plant facilities				
Interest expense				
Issuance of bonds				
Disposal of plant facilities				
Other			76	15,226
Total Expenditures and Other Deductions	1,497,467	359,958	2,225	15,325
TRANSFERS AND OTHER ADDITIONS/(DEDUCTIONS):				
Mandatory:				
Principal and interest	(36,887)	(1,049)		
Matching contribution	(899)	784	115	
Renewals and replacements	(149)			
Other mandatory transfers	(3,781)	(199)	51	824
Non-Mandatory:				
Unexpended plant funds	(44,806)	(151)		
Renewals and replacements	(2,970)		(5)	
Retirement of indebtedness	(30)			
Other	(7,845)	(1,568)	(33)	2,463
Operating transfers in	589,467	3,618	697	
Total Transfers and Other Additions/(Deductions)	492,100	1,435	825	3,287
NET INCREASE (DECREASE) FOR THE YEAR	34,891	(7,520)	1,979	(15,387)
FUND BALANCE AT BEGINNING OF THE YEAR	196,305	48,218	51,064	131,341
FUND BALANCE AT END OF THE YEAR	\$ 231,196	\$ 40,698	\$ 53,043	\$ 115,954

The accompanying notes are an integral part of the financial statements.



<u>Plant Funds</u>	<u>Total</u>
	\$ 437,414
	602,844
S 45,270	395,288
8,230	5,107
263,521	263,521
45,494	45,494
21,074	21,074
<u>18,612</u>	<u>22,750</u>
<u>402,201</u>	<u>1,793,492</u>
	1,352,213
	500,552
	1,711
	3,987
389	904
	695
25,673	25,673
206,176	206,176
23,522	23,522
46,952	46,952
60,875	60,875
<u>8,949</u>	<u>24,251</u>
<u>372,536</u>	<u>2,247,511</u>
37,936	
149	
3,105	
44,957	
2,975	
30	
6,983	
<u>20,797</u>	<u>614,579</u>
<u>116,932</u>	<u>614,579</u>
146,597	160,560
<u>2,177,212</u>	<u>2,604,140</u>
<u>\$ 2,323,809</u>	<u>\$ 2,764,700</u>

# **Combined Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes in Fund Balances Higher Education Fund Type**

**For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)**

	Current Funds		Total
	Unrestricted	Restricted	
REVENUES:			
Tuition and fees	\$ 254,691		\$ 254,691
Federal appropriations		\$ 9,312	9,312
Endowment income	801	3,500	4,301
Federal grants and contracts	4,403	194,493	198,896
State and local grants and contracts	4,471	69,123	73,594
Private gifts, grants and contracts	8,021	66,071	74,092
Investment earnings	3,999	69	4,068
Sales and services of educational facilities	54,897	622	55,519
Sales and services of auxiliary enterprises and hospitals	602,844	2,862	605,706
Insurance	65,804		65,804
Other sources	40,327	291	40,618
Total Current Revenues	1,040,258	346,343	1,386,601
EXPENDITURES AND MANDATORY TRANSFERS:			
Educational and General:			
Instruction	417,952	37,536	455,488
Research	53,062	80,219	133,281
Public service	42,936	52,275	95,211
Academic support	81,288	14,486	95,774
Student services	45,658	9,695	55,353
Institutional support	145,013	3,887	148,900
Operation and maintenance of plant	94,443	151	94,594
Scholarships and awards	57,784	156,070	213,854
Insurance activity	59,371		59,371
Other expenditures	366	21	387
Educational and General Expenditures	997,873	354,340	1,352,213
Mandatory Transfers for:			
Principal and interest	21,693	1,049	22,742
Matching requirements	899	(784)	115
Other mandatory transfers	3,781	199	3,980
Total Educational and General	1,024,246	354,804	1,379,050
Auxiliary Enterprises and Hospitals:			
Expenditures	499,594	958	500,552
Mandatory transfers for:			
Principal and interest	15,194		15,194
Renewals and replacements	149		149
Total Auxiliary Enterprises and Hospitals	514,937	958	515,895
Operating Transfers In	(589,467)	(3,618)	(593,085)
Total Expenditures and Mandatory Transfers	949,716	352,144	1,301,860
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Educational and General Non-Mandatory Transfers for:			
Unexpended plant	(44,806)	(151)	(44,957)
Renewals and replacements	(2,970)		(2,970)
Retirement of indebtedness	(30)		(30)
Other non-mandatory transfers	(7,845)	(1,568)	(9,413)
NET INCREASE (DECREASE) IN FUND BALANCES	\$ 34,891	\$ (7,520)	\$ 27,371

The accompanying notes are an integral part of the financial statements.

## Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2001

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** - The accompanying general purpose financial statements of the State of Arkansas (the "State") conform with accounting principles generally accepted in the United States of America ("GAAP") for governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the State's proprietary activities apply GAAP as it is applied by similar business activities in the private sector. The financial statements of the State's colleges and universities have been prepared in accordance with the accounting guidance as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the National Association of College and University Business Officers ("NACUBO"), and pronouncements issued by the GASB.

The general purpose financial statements have been prepared primarily from accounts maintained by the Department of Finance and Administration and the State Treasurer. Additional data has been derived from the audited financial statements of certain entities and from reports and data prescribed by the Department of Finance and Administration, Office of Accounting. These prescribed reports and data were prepared by various State agencies and departments based on independent or subsidiary accounting records maintained by them.

**The Reporting Entity** - For financial reporting purposes, the State of Arkansas' primary government includes all funds, account groups, departments and agencies, boards, commissions, and authorities that make up the State's legal entity. The State's reporting entity also is comprised of its component units; legally separate organizations for which the State's elected officials are financially accountable.

**Individual Component Unit Disclosures** - GAAP defines component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading and incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions; or discrete presentation of the component units' financial data columns separate from the State's balances and transactions.

**Blended Component Units** - The State has no blended component units.

**Discretely Presented Component Units** - Discrete component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Arkansas Student Loan Authority ("ASLA") and Arkansas Development Finance Authority ("ADFA") meet the criteria of discretely presented component units because they are legally separate, and the State is financially accountable. The State appoints a voting majority of the organization's governing body and is able to impose its will on ASLA and ADFA. The Component Units column of the combined financial statements include the financial data of the following entities:

**Arkansas Student Loan Authority** - ASLA was established pursuant to Act 873 of 1977, as amended. The purpose of ASLA is to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. The students attend qualified Arkansas educational institutions or are Arkansas residents who attend qualified institutions located outside the State of Arkansas.

**Arkansas Development Finance Authority** - ADFA provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprises, health care, infrastructure projects, jails and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture and exporting.

**Component Unit Financial Statements** - Complete financial statements of each of the discretely presented component units can be obtained by contacting their respective administrative office.

Arkansas Student Loan Authority  
101 East Capitol, Suite 401  
Little Rock, AR 72201

Arkansas Development Finance Authority  
100 Main Street, Suite 200; P.O. Box 8023  
Little Rock, AR 72203

**Fund Structure** - The financial activities of the State are accounted for in individual funds and account groups. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. These are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Individual funds of the primary government are classified in four fund categories: governmental, proprietary, fiduciary, and higher education.

Account groups are accounting entities used to account for the State's general fixed assets and long-term debt. These account groups are not funds because they do not reflect available financial resources and related liabilities.

The following describes the fund categories and account groups used in the accompanying general purpose financial statements:

### **Governmental Funds**

**General Fund** - The general fund is the general operating fund of the State. It is used to account for all financial resources obtained and spent for those services normally provided by the State which are not accounted for in other funds.

### **Proprietary Fund**

**Enterprise Fund** - This fund is used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The enterprise funds consist of the Workers' Compensation Commission ("WCC"), which is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment, the Construction Assistance Revolving Loan Fund, which is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities, and the Other Revolving Loan Funds, which are responsible for the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation of water systems and for the financing of capitalizable educational and general projects for community and technical colleges.

### **Fiduciary Funds**

**Trust and Agency Funds** - These funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other funds. These funds include expendable trust,

pension trust, and agency funds. Pension trust funds are accounted for on the accrual basis. Expendable trust funds are accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

### **Higher Education Fund**

The financial statements of Higher Education have been prepared with the accounting guidance and reporting practices applicable to colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the NACUBO and pronouncements issued by the GASB.

*Current Funds* - These funds are used to account for resources that will be expended in the near term for operating purposes of the institutions. These include (1) unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes, and (2) restricted funds which may be utilized only in accordance with externally restricted purposes.

*Fiduciary Funds* - These funds are used to account for assets held by loan, endowment, life income, and agency funds in which the universities act in a fiduciary capacity.

*Plant Funds* - These funds are used to account for institutional property acquisition, renewal, replacement, debt service, and investment.

*Agency Funds* - These funds are used to account for amounts held in custody for students, university-related organizations, and others.

The Combined Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes in Fund Balances is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

### **Account Groups**

*General Fixed Assets* - This account group is used to account for all fixed assets (excluding infrastructure) that are not accounted for in the proprietary fund, pension trust funds, higher education fund, or component units.

*General Long-Term Debt* - This account group includes the unmatured portion of the long-term general obligation debt which is to be financed from governmental funds. Also included in this group are long-term liabilities resulting from capital lease obligations, notes payable, claims and judgments, compensated absences, and unfunded pension costs.

### **Discretely Presented Component Units**

The State's discretely presented component units conduct business-like activities that provide goods/services to the public, other governmental units, and the State, and are financed primarily through user charges. The measurement focus of these entities is upon determination of net income, financial position, and cash flows.

*Basis of Accounting* - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus as described below. The revenue, expenditure and expense recognition policies have been applied in the determination of the related assets and liabilities at June 30, 2001.

Governmental and expendable trust funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State's revenue recognition policies conform to the provisions of GASB Statement No. 22, *Accounting for Tax-Payer Assessed Tax Revenues in Governmental Funds*. Significant revenues susceptible to accrual include income, sales, corporation and other taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services. Revenues from federal grants are recognized when the related expenditures have been incurred. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred except (1) inventories generally are recorded as expenditures when purchased, and (2) principal and interest on long-term debt are recorded when paid.

The accrual basis of accounting with a flow of economic resources measurement focus is utilized in the proprietary fund, pension trust funds, higher education fund, and discretely presented component units. Under this accounting basis, revenues are recognized when earned and expenses are recognized when incurred. For the pension trust funds, employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

The State and the discretely presented component units have adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting*. As permitted by the statement, the State has elected not to adopt Financial Accounting Standards Board ("FASB") Statements issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

Consistent with current GAAP for public colleges and universities, depreciation on higher education physical or plant assets is not recorded, and revenue and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted.

Agency funds are custodial in nature (assets equal liabilities) and are accounted for on a modified accrual basis of accounting.

**Budgetary Basis of Accounting** - The State's budget is adopted in accordance with a statutory cash basis of accounting which is not in accordance with GAAP. Revenues are recognized when cash is received and deposited in the State Treasury or reported to the Department of Finance and Administration. Expenditures are recorded when cash is disbursed. If goods or services are not received before year end, all encumbrances lapse, except those appropriations for multi-year projects.

**Cash and Cash Equivalents** - Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, all certificates of deposit, and all short-term instruments with maturities at purchase of ninety days or less. Short-term investments are stated at fair value, except for agency funds not held for investment purposes which are reported at amortized cost.

**Investments** - Investments include U.S. Government and government agency obligations, repurchase agreements, state and local government obligations, and corporate debt and equity obligations. Investments are reported at fair value, except for agency fund investments not held for investment purposes, which are reported at amortized cost. The General and Higher Education Fund Investments are stated at fair value as determined by independent quoted market sources.

Investments in the pension trust funds are reported at fair values as determined by the custodial agents. The agents' determination of fair value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Unrealized gains and losses on investments are included in investment earnings on the respective operating statements.

The University of Arkansas System (the "System") has established an investment pool (the "Pool"). The investments in the Pool are governed by the System Investment Policy, which was established by the University of Arkansas Board of Trustees. The Pool is not SEC-registered. Participation in the Pool is voluntary. At June 30, 2001, four universities and two foundations participated in the Pool. These foundations hold approximately \$313 million (external portion) of the investments in the Pool, which are reported separately along with the related liability in an agency fund. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas, 72207-3608, (501) 686-2500.

**Receivables** - Receivables in the State's governmental fund consist primarily of taxes, loans, interest and federal grants. The remaining governmental fund revenues are not considered susceptible to accrual prior to receipt. Receivables in all other funds have arisen in the ordinary course of business.

**Interfund Transactions** - The State has three types of interfund transactions:

- Operating appropriations. These are accounted for as operating transfers in the funds involved.
- Residual equity transfers. These are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from fund equity.
- Quasi-external transactions. Charges or collections for services rendered by one fund to another are recorded as revenues in the receiving fund and expenditures/expenses of the disbursing fund.

**Inventories** - Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when purchased. Inventory balances are recorded as a reserve of fund balance indicating that they do not constitute "available spendable resources."

**Fixed Assets** - Purchases of general fixed assets of the governmental funds are recorded as expenditures of those funds, with the related assets recorded in the General Fixed Asset Account Group. General fixed assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value or estimated fair market value at the time of the donation. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Public domain general fixed assets ("infrastructure"), consisting of roads, bridges, streets, sidewalks, drainage systems and lighting systems, are not capitalized as these assets are immovable and of value only to the government. Assets in the General Fixed Asset Account Group are not depreciated.

Fixed assets held in the enterprise funds and discretely presented component units have been valued in the same manner as the General Fixed Asset Account Group. The fixed assets of these funds are depreciated on a straight-line basis over their estimated useful lives. Buildings are depreciated over various lives, ranging from 20 to 50 years, machinery and equipment 3 to 35 years and vehicles 5 years.

**Contributed Capital** - The Revolving Loan Funds record contributed capital for federal and state grants used to fund the programs. As grants are received, the State recognizes such grants as direct contributions to equity.

**Compensated Absences** - The amount of compensated absences to be paid from future resources is reported in the General Long-Term Debt Account Group. Vested or accumulated vacation leave of the proprietary, higher education fund and component units is recorded as an expense and an accrued liability of these funds as the benefits accrue to employees.

**Equity** - Reserves represent those portions of equity that are not available for appropriation or legally segregated for a specific future use.

**Total Columns (Memorandum Only)** - Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in accordance with accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**Future Adoption of Accounting Pronouncements** - The GASB has issued Statement of Governmental Accounting Standards No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which the State has not yet adopted. The requirements of this Statement are effective in three phases based on the State's total annual revenues in the first fiscal year ending after June 30, 1999. The State will be required to implement GASB 34 for the fiscal year ending June 30, 2002.

The GASB has issued Statement of Governmental Accounting Standards No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, which the State has not yet adopted. The requirements of this Statement are effective in three phases based on the public institution's total annual revenues in the first fiscal year ending after June 30, 1999. The State will be required to implement GASB 35 for the fiscal year ending June 30, 2002.

The GASB has issued Statement of Governmental Accounting Standards No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government's*, which the State has not yet adopted. The requirements of this Statement are effective in three phases based on the State's total annual revenues in the first fiscal year ending after June 30, 1999. The State will be required to implement GASB 37 for the fiscal year ending June 30, 2002.

The GASB has issued Statement of Governmental Accounting Standards No. 38, *Certain Financial Statement Note Disclosures*, which the State has not yet adopted. The requirements of this Statement are effective in three phases based on the State's total annual revenues in the first fiscal year ending after June 30, 1999. The State will be required to implement GASB 38 for the fiscal year ending June 30, 2002.

**Reclassifications** - Certain reclassifications have been made to the 2000 financial statements to conform to the June 30, 2001, presentation.



**NOTE 2: BUDGETARY BASIS REPORTING - BUDGETARY PROCESS**

State finance law requires that a balanced budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly which includes an estimate of revenues, expenditures and other financing sources and uses anticipated during the coming biennial period. The General Assembly, which has full authority to amend the budget, adopts a line item budget by appropriating monies in biennial appropriation acts. The State does not adopt a revenue budget but does monitor the revenues and forecast of revenues and makes appropriate revisions to the expenditure budget based on such forecasts. These forecasts are adjusted quarterly to reflect actual receipts of revenues.

Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the biennial appropriation may be made via supplemental appropriation acts or other subsequent legislative acts. These also must be approved by the General Assembly and signed by the Governor and are subject to the line item veto.

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Law (the "Stabilization Law") to provide an allotment process of funding appropriations in order to comply with the state law prohibiting deficit spending. The Governor may restrict spending to a level below appropriations amounts. The State uses specific "internal sub funds" (i.e. general and special revenue allotment accounts) for receipt and distribution of revenues. Pursuant to the Stabilization Law, all receipts are deposited in the General Revenue Allotment Account. From the General Revenue Allotment Account, 3% of all revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected constitutional offices (legislators, executive department and judges), their staffs and the Department of Finance and Administration ("DF&A"). The balance is then distributed to separate funds proportionately as established by the Stabilization Law. Special revenues are deposited into the Special Revenue Allotment Account from which 3% of revenues collected by DF&A and 11/2% of all special revenues collected by other agencies are first distributed to provide support for the State's elected officials, their staffs and DF&A. The balance is then distributed to the funds for which the special revenues were collected as provided by law. Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

General revenues are transferred into funds established and maintained by the Treasurer for major programs and agencies of the State in accordance with funding priorities established by the General Assembly.

Pursuant to the Stabilization Law, the General Assembly establishes three levels of priority for general revenue spending levels, "A," "B" and "C". Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs or agencies' funds maintained by the Treasurer or the maximum appropriation by the General Assembly.

Each of these legally adopted internal sub-funds are accounted for on the cash basis. All prior fiscal year unpaid bills or claims that did not have sufficient funds and appropriation at the end of the fiscal year may be submitted by the agency to the Claims Commission. Upon approval of the claims, funds are appropriated in the following biennium to allow for payment, unless the claims are approved during a special session of the legislature.

The majority of the State's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the General Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the General Assembly may direct that certain revenues be retained and made available for spending within a specific appropriation account.

The rate of spending of appropriations is controlled by DF&A. DF&A utilizes quarterly allotments which restrict spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year.

DF&A has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation classification basis. Appropriation classifications are subdivisions of appropriations, which define the purposes for which the appropriation can be used, and restrict the amount of expenditures for the various classifications to amounts established in the appropriation acts. Appropriation classifications may include regular salaries, extra help, over-time, maintenance and general operation, personal services matching, conference and travel expenses, professional fees, capital outlay, data processing, grants assistance and special aid, construction and permanent improvements, and other special classifications. Budgetary control is maintained through the Arkansas Accounting Federal Grants Management System ("AFGM"). AFGM ensures that expenditures are not processed if they exceed the appropriation classification total available spending authorization, which is considered its budget. Generally, expenditures may not exceed the level of spending authorized. However, Arkansas law authorizes DF&A to transfer specific holding appropriations when other sources of funding are received, such as a federal grant.

An AFGM report, internally identified as AFGM R5901, is used by DF&A to monitor spending against budget. This report provides information at the individual appropriation line item level, which is the legal level of budgetary control, and is available from DF&A. For financial reporting, the State groups these appropriation account categories by function to conform to its organizational structure.

The State uses the General Fund to summarize the internal sub-funds, which represent accounts or activities that have been legally appropriated.

The following is a reconciliation of the statutory cash basis revenues and other sources under expenditures and other uses of the General Fund to the GAAP basis excess of revenues and other sources over expenditures and other uses presented in the financial statements (expressed in thousands):

Revenues and other sources over expenditures and other uses (statutory basis)	\$ 45,805
Non-appropriated excess of revenues and other sources over expenditures and other uses	170,424
Basis of accounting differences	<u>(295,353)</u>
Excess of revenues and other sources over (under) expenditures and other uses (GAAP basis)	<u>\$ (79,124)</u>

Supplemental appropriations of \$151 million were required during the fiscal year ended June 30, 2001.

### **NOTE 3: DEPOSITS AND INVESTMENTS**

#### ***Cash***

Arkansas Code requires that all cash fund agencies, other than the institutions of Higher Education, abide by the cash management and investments standards and procedures promulgated by the State Board of Finance. The stated primary goal of State cash management is the protection of principal, while maximizing investment earnings and minimizing non-interest bearing balances.

Cash and cash equivalents are defined as short-term highly liquid investments with original maturities of ninety days or less. The reported amount of total deposits at June 30, 2001, is as follows (expressed in thousands):

	<u>Primary Government</u>	<u>Component Units</u>
Reported amount of deposits	\$ 909,966	\$ 3,904
Bank balance of deposits	1,219,978	4,767
Amount insured or collateralized with securities held by the State or its agent in the State's name	1,079,450	4,767
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the State's name	93,067	-
Uncollateralized, or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the State's name	47,461	-

The following schedule reconciles the reported amount of deposits as disclosed above to the combined balance sheet (expressed in thousands):

	<u>Primary Government</u>	<u>Component Units</u>
Reported amount of deposits	\$ 909,966	\$ 3,904
Cash on hand	3,966	
Undeposited receipts	15,814	
Cash held at U.S. Treasury	244,409	
Investments disclosed as cash equivalents for GASB 3	(3,125)	(915)
Cash equivalents disclosed as investments for GASB 3	<u>1,523,076</u>	<u>115,497</u>
Cash and cash equivalents as reported on the combined balance sheet	<u>\$2,694,106</u>	<u>\$ 118,486</u>

### **Investments**

State funds are invested by the Treasurer, as well as various state agencies, including the Retirement Systems, institutions of Higher Education, and Discretely Presented Component Units. Permissible investments include those guaranteed by the United States of America, its agencies, and instrumentalities (U.S. Government obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

Purchased and donated investments are generally stated at fair value, while investments held in an agency capacity and not for investment purposes are reported at amortized cost. In accordance with Statement No. 3 of the GASB, the State's investments are categorized to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the State's name.

**Primary Government -**

Investments for the Primary Government at June 30, 2001, by security type and level of risk, are as follows (expressed in thousands):

	Category				
Security Type	1	2	3	Reported Amount	Fair Value
Categorized:					
U.S. Government securities	\$ 1,515,362	\$ 5,302	\$ 314,921	\$ 1,835,585	\$ 1,853,779
Corporate securities	7,530,458	1,348	571,095	8,102,901	8,105,722
International securities	1,115,410		23,282	1,138,692	1,138,692
Repurchase agreements		9,164	56,930	66,094	66,094
Bank obligations			92,985	92,985	92,985
State and local government securities	1,129		34,355	35,484	37,243
Commercial paper	69,016	252		69,268	69,268
Other categorized	<u>13,635</u>	<u>26,027</u>	<u>79,437</u>	<u>119,099</u>	<u>119,099</u>
Total Investments					
Categorized by Security Type	<u>\$ 10,245,010</u>	<u>\$ 42,093</u>	<u>\$ 1,173,005</u>	<u>11,460,108</u>	<u>11,482,882</u>
Uncategorized:					
Mutual funds				1,434,010	1,434,010
Securities lent for cash collateral				1,338,250	1,338,250
Mortgage obligations				161,162	161,162
Real estate				190,617	190,617
Limited partnership investment				1,323,640	1,323,640
Private placements				60,164	60,164
External investment pool				744,691	744,691
Guaranteed investment contracts				40,842	40,842
Other investments				<u>2,403</u>	<u>2,403</u>
Total				<u>\$ 16,755,887</u>	<u>\$ 16,778,661</u>

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	\$ 16,755,887
Investments disclosed as cash equivalents for GASB 3	3,125
Cash equivalents disclosed as investments for GASB 3	<u>(1,523,076)</u>
Investments as reported on the combined balance sheet	<u>\$ 15,235,936</u>

**Component Units -**

Investments for the Discretely Presented Component Units at June 30, 2001, by security type and level of risk, are as follows (expressed in thousands):

Security Type	Category			Reported Amount	Fair Value
	1	2	3		
Categorized:					
U.S. Government					
agency obligations	\$861,280		\$29,897	\$ 891,177	\$ 891,177
Commercial paper	<u>287</u>			<u>287</u>	<u>287</u>
Total Investments					
Categorized by					
Security Type	<u>\$861,567</u>		<u>\$29,897</u>	<u>891,464</u>	<u>891,464</u>
Uncategorized:					
Investment				312,955	312,955
agreements				<u>116,459</u>	<u>116,459</u>
Mutual funds					
Total				<u>\$1,320,878</u>	<u>\$1,320,878</u>

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	\$ 1,320,878
Investments disclosed as cash equivalents for GASB 3	915
Cash equivalents disclosed as investments for GASB 3	<u>(115,497)</u>
Investments as reported on the combined balance sheet	<u>\$ 1,206,296</u>

**NOTE 4: DERIVATIVES****Primary Government -****Forward Currency Contracts**

Arkansas Public Employees Retirement System ("APERS") and Arkansas Teacher Retirement System ("Teacher") enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in the value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net realized gain or loss on forward currency contracts in the statement of changes in plan net assets. At June 30, 2001, the retirement systems referred to above were party to outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of \$224.4 million, collectively. Market values of these outstanding contracts were \$215.4 million resulting in an unrealized net loss of approximately \$9.0 million. The retirement systems also had outstanding forward currency contracts to sell foreign currency with contract amounts of \$237.0 million at June 30, 2001. Market values of these contracts were \$228.1 million resulting in an unrealized net gain of approximately \$8.9 million.

### ***Mortgage-Backed Securities***

APERS, Teacher, and Arkansas State Highway Employees Retirement System ("ASHERS"), invest in various asset-backed securities, mortgage-backed securities, and structured corporate debt. These securities are reported at fair value in the balance sheet. They are also included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk (see Note 3 on Deposits and Investments). The retirement systems referred to above invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

### ***Component Units -***

#### ***Mortgage-Backed Securities***

ADFA invests in various asset and mortgage-backed securities. These securities are reported at fair value in the combined balance sheet. They are also included in the totals of U.S. Government and Agency securities in the disclosure of custodial credit risk. ADFA invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

#### ***Interest Rate Swaps***

ADFA has entered into an interest rate swap agreement to effectively convert \$10 million of variable rate debt based on the 3-month LIBOR to fixed rate debt with an effective fixed rate of 7.698%. ADFA is exposed to interest rate risk under the swap agreement if the 3-month LIBOR rate is less than 7.418%. The interest rate swap agreement is set to expire January 2, 2014.

ASLA has entered into an interest rate swap agreement to effectively convert \$32.65 million of fixed rate debt to variable rate debt with a weighted average interest rate based on the PSA Municipal Swap Index. The effective interest rate of the debt was 3.8% for the period ended June 30, 2001. The differential to be paid or received on the interest rate swap is accrued as interest rates change and is charged or credited to interest expense over the life of the agreement. ASLA's credit risk related to this interest rate swap agreement is generally the differential, if any, payable by the counterparty which accumulated prior to the June 1 and December 1 settlement dates each year. ASLA is exposed to interest rate risk under the swap agreement and will incur interest expense above the related bond interest rates if the weighted PSA Municipal Swap Index rate exceeds 4.84%. The related PSA Municipal Swap Index rate was 2.65% at June 30, 2001. The interest rate swap agreement is set to expire June 1, 2003.

### **NOTE 5: SECURITIES LENDING ARRANGEMENTS**

State Police, Teacher, and APERS participate in security lending programs, as authorized by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 12, whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the U.S. Government or an agency thereof equal to at least 100% of the full market value of the security loaned. At all times during the term of each loan, the total value of the collateral is not to be less than 95% of the full market value of all securities on loan. The program is administered by custodial agent banks. The code does not specify the types of securities that may be loaned. The type of securities on loan at June 30, 2000, includes domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury securities, government agency securities and non U.S. sovereigns. Securities on loan at fiscal year end for cash collateral are uncategorized in the preceding summary of deposits and investments (Note 3); securities on loan for non-cash collateral are classified by category of custodial credit risk based on the categorization appropriate for the collateral. With the exception of cash collateral, the pensions do not have the ability to pledge or sell the collateral unless there is borrower default. The pensions invest cash collateral received; accordingly, investments made with cash collateral received appear as assets on the Statement of Plan Net Assets and Combined Balance Sheet. As

the pensions must return the cash collateral to the borrower upon expiration of the loan, a corresponding liability is recorded in accrued and other liabilities. At June 30, 2001, cash collateral and investments made with cash collateral was approximately \$1.38 billion. These securities have also been classified in the preceding summary of deposits and investments (see Note 3). The weighted average maturity of collateral investments generally does not match the maturity of the loans. The custodial agents provide the pensions with an indemnification if an insolvency causes the borrower to fail to return the securities lent. However, in the history of the pensions' participation in such programs, no losses resulting from default have occurred. Total securities on loan at June 30, 2001, was \$1.34 billion and total collateral received for these securities on loan was \$1.39 billion. At June 30, 2001, the pension systems have no credit risk exposure to borrowers because the amounts the pension systems owe the borrowers exceed the amounts the borrowers owe the pension systems.

#### NOTE 6: SHORT SALES OF SECURITIES

Teacher participates in short sales of securities, as allowed under the prudent investor rule as set forth by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 17, whereby investment securities are borrowed and sold in anticipation of a price decline. If the price declines, the short seller generates a gain and closes out the short position with a purchase of like securities at a cost that is less than the obligation created by the initial borrowing. Because short sale borrowings represent obligations to deliver securities, they are not investments. The code does not specify the types of securities that can participate in such sales. Short sale obligations are marked-to-market and are recorded as a liability as of June 30, 2001, at a fair value of \$71.5 million. The short sale transactions are administered by a custodial agent bank.

#### NOTE 7: RECEIVABLES

Receivables at June 30, 2001, consisted of the following (expressed in thousands):

##### *Primary Government -*

	<u>Accounts</u>	<u>Taxes</u>	<u>Employer</u>	<u>Employee</u>	<u>Notes and Deposits</u>	<u>Medicaid</u>	<u>Loans</u>	<u>Investment Related</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivable by Fund Type</u>
General Fund	\$ 97,228	\$290,956			\$38,722	\$135,174	\$191,814	\$ 11,789	\$ (65,376)	\$ 700,307
Enterprise Funds	8,561						189,964	1,261		199,786
Trust and Agency Funds	75,665		\$6,573	\$7,388				323,934	(22,376)	391,184
Higher Education Fund	<u>716,623</u>				<u>60,503</u>			<u>1,542</u>	<u>(554,732)</u>	<u>223,936</u>
Total	<u>\$898,077</u>	<u>\$290,956</u>	<u>\$6,573</u>	<u>\$7,388</u>	<u>\$99,225</u>	<u>\$135,174</u>	<u>\$381,778</u>	<u>\$ 338,526</u>	<u>\$ (642,484)</u>	<u>\$ 1,515,213</u>

##### *Component Units -*

	<u>Accounts</u>	<u>Loans</u>	<u>Investment Related</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivable by Component Unit</u>
ASLA		\$ 234,371	\$ 7,549	\$ (1,725)	\$ 240,195
ADFA	<u>\$ 2,195</u>	<u>404,866</u>	<u>8,799</u>	<u>(10,533)</u>	<u>405,327</u>
Total	<u>\$ 2,195</u>	<u>\$639,237</u>	<u>\$16,348</u>	<u>\$ (12,258)</u>	<u>\$ 645,522</u>

**NOTE 8: INTERGOVERNMENTAL ACTIVITY (expressed in thousands)*****Interfund Receivables and Payables***

	<u>Due from</u>	<u>Due to</u>
General Fund	\$ 214	\$ 6,563
Trust and Agency Funds - Agency Funds	953	126
Higher Education Fund - Current Funds	<u>5,610</u>	<u>88</u>
Total	<u>\$ 6,777</u>	<u>\$ 6,777</u>

***Intrafund Receivables and Payables***

	<u>Due from</u>	<u>Due to</u>
Higher Education Fund: Current funds	\$ 5,769	\$ 10,691
Loan		69
Endowment and similar		931
Plant	7,111	1,253
Agency	<u>83</u>	<u>19</u>
Total	<u>\$ 12,963</u>	<u>\$ 12,963</u>

***Advances to/from Other Funds - Primary Government***

	<u>Advances to</u>	<u>Advances from</u>
General Fund	\$ 14,769	\$ 20,705
Trust and Agency Funds - Pension Trust - Teacher	20,705	
Higher Education Fund - Plant Fund		<u>14,769</u>
Total	<u>\$ 35,474</u>	<u>\$ 35,474</u>

***Operating Transfers***

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	658	\$614,579
Enterprise Fund - Workers' Compensation Commission		658
Higher Education Fund: Current Funds	\$593,085	
Loan Fund	697	
Plant Fund	<u>20,797</u>	
Total	<u>\$615,237</u>	<u>\$615,237</u>



**NOTE 9: FIXED ASSETS****Primary Government -**

Changes in general fixed assets were as follows (expressed in thousands):

	<u>Balance July 31, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Land	\$ 183,207	\$ 9,983	\$ 236	\$ 192,954
Buildings	648,491	38,862	9,957	677,396
Equipment	245,133	22,473	15,693	251,913
Construction in progress	113,839	55,258	28,405	140,692
Total	<u>\$1,190,670</u>	<u>\$126,576</u>	<u>\$54,291</u>	<u>\$1,262,955</u>

At June 30, 2001, fixed assets by category in other funds consisted of the following amounts:

	<u>Enterprise Funds</u>	<u>Pension Trust Funds</u>	<u>Higher Education Fund</u>
Land	\$ 831		\$ 141,759
Buildings	2,034		1,518,790
Equipment	1,804	\$ 2,605	649,451
Construction in progress			222,185
Other	<u>158</u>	<u>          </u>	<u>          </u>
Subtotal	4,827	2,605	2,532,185
Less: Accumulated Depreciation	<u>(1,823)</u>	<u>(1,227)</u>	<u>          </u>
Total	<u>\$ 3,004</u>	<u>\$ 1,378</u>	<u>\$2,532,185</u>

**Component Units -**

At June 30, 2001, fixed assets reported in the State's discretely presented component units consisted of the following amounts:

Equipment	\$ 1,037
Less: Accumulated Depreciation	<u>(523)</u>
Total	<u>\$ 514</u>

**NOTE 10: SUMMARY OF LONG-TERM DEBT**

The State records its long-term liabilities in the General Long-Term Debt Account Group. These liabilities include general obligation bonds, special obligations bonds, notes payable to component units, other debt instruments, capital leases, capital leases with component unit, claims and judgments payable in future years, accrued compensated absences, and net pension obligation.

The following schedule shows the changes in the General Long-Term Debt Account Group for the year ended June 30, 2001 (expressed in thousands):

	<u>Balance July 1, 2000</u>	<u>Debt Issued</u>	<u>Debt Paid</u>	<u>Other Changes</u>	<u>Balance June 30, 2001</u>
Bonds:					
General obligation	\$546,172	\$18,300	\$25,220	\$11,937	\$551,189
Special obligation	4,580		1,030		3,550
Other debt instruments	4,300		948		3,352
Notes payable to component unit	44,772	13,574	3,599		54,747
Capital leases	23,931	3,422	4,382		22,971
Capital leases with component unit	68,631		7,332		61,299
Claims and judgments	72,505			22,137	94,642
Compensated absences	64,963			7,707	72,670
Net pension obligation	<u>4,591</u>			<u>(1,353)</u>	<u>3,238</u>
Total	<u>\$834,445</u>	<u>\$35,296</u>	<u>\$42,511</u>	<u>\$40,428</u>	<u>\$867,658</u>

**Primary Government -****Governmental Fund Type Operations**

**General Obligation Bonds** - The Constitution of the State does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose.

General obligation bonds outstanding at June 30, 2001, including accrued accreted interest of approximately \$62 million on capital appreciation bonds, were as follows (expressed in thousands):

	<u>Final Maturity Date</u>	<u>Interest Rates %</u>	<u>Balance</u>
Federal Highway Grant Anticipation and Tax Revenue G.O. Bonds:			
2000A Series Federal Highway G. O. Bonds	2011	5.25 - 5.50	\$ 175,000
Soil and Water Conservation Bonds:			
1992A Series Water Resources G.O. Bonds	2021	5.50 - 6.38	13,645
1995A Series Water Resources G.O. Bonds	2024	4.70 - 5.60	4,645
1995B Series Water Resources G.O. Bonds	2025	4.30 - 5.75	6,645
1996A Series Water Resources G.O. Bonds	2017	4.50 - 5.38	10,249
1996B Series Water Resources G.O. Bonds	2025	4.70 - 5.85	6,895
1997A Series Water Resources G.O. Bonds	2026	4.70 - 5.70	13,995
1997B Series Water Resources G.O. Bonds	2026	4.10 - 5.25	13,640
1998 Series Water Resources G.O. Bonds	2027	4.50 - 4.88	9,425
1992B Series Waste Disposal G.O. Bonds	2020	5.10 - 6.25	8,455
1994A Series Waste Disposal G.O. Bonds	2008	4.75 - 5.50	6,230
1995A Series Waste Disposal G.O. Bonds	2025	4.20 - 5.50	2,235
1996A Series Waste Disposal G.O. Bonds	2025	5.10 - 5.63	4,595
1997A Series Waste Disposal G.O. Bonds	2026	4.10 - 5.25	4,640
1998A Series Waste Disposal G.O. Bonds	2027	4.50 - 5.05	9,510
2000A Series Water, Waste, and Pollution	2022	4.75 - 5.70	5,000
2001A Series Water, Waste, and Pollution	2011	4.65 - 6.30	9,700
2001B Series Water, Waste, and Pollution	2011	3.25 - 4.55	3,600
College Savings Bonds:			
1991A Series, G.O. Bonds	2011	6.40 - 7.00	14,652
1991B Series, G.O. Bonds	2012	6.45 - 7.00	22,240
1991C Series, G.O. Bonds	2013	6.25 - 6.90	14,828
1993 Series, G.O. Bonds	2014	5.15 - 5.95	17,278
1995 Series, G.O. Bonds	2015	4.60 - 5.90	19,534
1996A Series, G.O. Bonds	2016	4.00 - 5.65	21,655
1996B Series, G.O. Bonds	2016	4.65 - 6.30	15,692
1996C Series, G.O. Bonds	2016	4.40 - 6.00	25,805
1997A Series, G.O. Bonds	2017	4.70 - 6.05	27,410
1997B Series, G.O. Bonds	2017	4.15 - 5.60	26,141
1998A Series, G.O. Bonds	2017	4.00 - 5.35	37,850
Total			<u>\$551,189</u>

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2001, were as follows (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2002	\$ 14,306	\$ 22,118	\$ 36,424
2003	18,864	26,136	45,000
2004	18,714	27,116	45,830
2005	40,292	26,894	67,186
2006	40,966	25,430	66,396
Thereafter	<u>356,047</u>	<u>226,043</u>	<u>582,090</u>
Total	<u>\$489,189</u>	<u>\$353,737</u>	<u>\$842,926</u>

Details of general obligation bonds outstanding are as follows:

*Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds* - Act 1027 of 1999 and a statewide election conducted June 15, 1999, authorized the State to issue Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to \$575 million to be issued in several series of various principal amounts. The bonds were issued to pay the cost of constructing and renovating improvements to interstate highways and related facilities in the State of Arkansas. The bonds are payable primarily by revenues derived from the tax on diesel fuel at the rate of 4¢ per gallon.

*State Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds* - Act 607 of 1997, authorized the State to issue Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to approximately \$260 million with no more than \$60 million being issued during any fiscal biennium for non-refunding purposes unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water, waste disposal, pollution abatement, drainage and flood control, irrigation and wetland preservation facilities projects in the state. The bonds are payable from the general revenues of the State.

*State Water Resources Development General Obligation Bonds* - Act 496 of 1981, as amended, authorized the Soil and Water Conservation Commission to issue State Water Resources Development General Obligation Bonds. All bonds issued under the authority of this Act are general obligations of the State of Arkansas and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to \$100 million with no more than \$15 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water resources projects in the State of Arkansas approved and implemented by the Arkansas Soil and Water Conservation Commission with the exception of the portion of the Series 1992A and the Series 1996A bonds. A portion of the Series 1992A bonds were issued to refund the outstanding principal amount of the Water Series 1985 bonds. The Series 1996A bonds were issued to defease the outstanding principal of the Water Series 1989A bonds. The bonds are payable from the general revenues of the State, any repayments on project loans and investment earnings on the proceeds of the bonds.

*State Waste Disposal and Pollution Abatement Facilities General Obligation Bonds* - Act 686 of 1987, as amended, authorized the State to issue Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the

total principal amount to \$250 million with no more than \$50 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of waste disposal and pollution abatement facilities projects in the State of Arkansas with the exception of the Series 1992B and 1994A bonds which were issued to refund the outstanding principal amount of Waste Series 1990A and 1992A bonds, respectively. The bonds are payable from the general revenues of the State, any repayments on project loans and investment earnings on the proceeds of the bonds.

*College Savings General Obligation Bonds* - Act 683 of 1989, as amended, authorized the State to issue College Savings General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act provides that no more than \$100 million may be issued in any fiscal biennium unless the General Assembly of the State shall, by law, authorize a greater principal amount thereof to be issued. The College Series bonds were issued to provide funds to finance capital improvements projects at State institutions of higher education. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds.

*Special Obligation Bonds* - Special obligation bonds are issued by various state departments, agencies, and authorities which are part of the primary government. Special obligation bonds are issued pursuant to specific statutory provisions enacted by the Legislature. Principal and interest payments are made from specifically dedicated fees and other revenues generated by the appropriate program. Special obligation bonds do not constitute general debt of the State.

Special obligation bonds outstanding at June 30, 2001, were as follows (expressed in thousands):

	<u>Final Maturity Date</u>	<u>Interest Rate(s) %</u>	<u>Balance</u>
Vocational and Technical Education - Capital Improvement - 1992 A Series	2012	5.80 - 6.38	\$ 860
War Memorial Stadium Commission - Revenue Improvement Bonds - 1999 Series	2004	5.00	<u>2,690</u>
Total			<u><u>\$3,550</u></u>

Future amounts required to pay principal and interest on special obligation bonds at June 30, 2001, were as follows (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2002	\$ 930	\$ 167	\$1,097
2003	975	119	1,094
2004	1,025	68	1,093
2005	90	39	129
2006	95	34	129
Thereafter	<u>435</u>	<u>71</u>	<u>506</u>
Total	<u><u>\$3,550</u></u>	<u><u>\$ 498</u></u>	<u><u>\$4,048</u></u>

Details of special obligation bonds outstanding are as follows:

*Vocational and Technical Education* - The capital improvement revenue bonds were issued under the authority of Act 6 of the First Extraordinary Session of 1968, as amended. The bonds are special obligations of the Department of Workforce Education and are payable from and secured solely by pledged revenues and investment earnings on the proceeds of the bonds. The proceeds from the sale of the bonds were used to finance various capital improvements at vocational technical schools.

*War Memorial Stadium Commission* - The War Memorial Stadium Commission Stadium Improvement Revenue Bonds Series 1999, dated December 15, 1999, in the amount of \$3.5 million were issued under the provisions of Amendment 65 to the Constitution of the State of Arkansas and Arkansas Code Annotated Sections 22-3-1001 *et seq.* for the purpose of financing the cost of acquiring, constructing, and equipping betterments and improvements to War Memorial Stadium located in Little Rock, Arkansas, and paying costs of issuing the bonds. The bonds are payable from net revenues derived by the Commission from the operation of the Stadium.

*Other Debt Instruments* - Other debt instruments are similar to special obligation bonds in regard to the methods of issuance and the sources of repayment of principal and interest.

Other debt instruments outstanding at June 30, 2001, were as follows (expressed in thousands):

	<u>Final Maturity Date</u>	<u>Interest Rate(s) %</u>	<u>Balance</u>
Certificates of Indebtedness:			
State Building Services - 1984 Issue "A"	2004	8.50	\$ 736
State Building Services - 1984 Issue "C"	2004	8.50	1,790
State Building Services - 1985 Issue "D"	2004	8.50	755
State Building Services - 1986 Issue "E"	2004	8.50	<u>71</u>
Total			<u>\$3,352</u>

Future amounts required to pay principal and interest on other debt instruments at June 30, 2001, were as follows (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2002	\$1,028	\$ 241	\$1,269
2003	1,114	150	1,264
2004	<u>1,210</u>	<u>51</u>	<u>1,261</u>
Total	<u>\$3,352</u>	<u>\$ 442</u>	<u>\$3,794</u>

Details of other debt instruments are as follows:

*State Building Services* - Act 458 of 1983 authorized State Building Services to issue certificates of indebtedness designated as State Building Services Certificates of Indebtedness. These certificates of indebtedness are special obligations secured solely by a lien on and pledge of specific pledged revenues. The Act limited the total principal amount to \$25 million. The proceeds of the sale of certificates of indebtedness were used to construct facilities for the Department of Correction and to construct and equip facilities at State supported institutions of higher education. Debt service requirements are met by certain pledged revenues.

**Notes Payable to Component Units** - Notes payable to component units consist of notes issued to ADFA for construction and renovation of various State agency facilities. Principal and interest payments are made from specifically dedicated fees and other revenue sources.

Future amounts required to pay principal and interest on notes payable to component units at June 30, 2001, were as follows (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2002	\$ 3,145	\$ 5,106	\$ 8,251
2003	3,295	4,960	8,255
2004	3,455	4,799	8,254
2005	3,665	4,629	8,294
2006	3,845	4,461	8,306
Thereafter	<u>37,342</u>	<u>42,268</u>	<u>79,610</u>
Total	<u>\$ 54,747</u>	<u>\$66,223</u>	<u>\$120,970</u>

### Proprietary Fund

**Construction Assistance Revolving Loan Fund (the "Fund")** - ADFA issues special obligation bonds on behalf of the Fund. The Fund uses the proceeds to support operations. The Fund is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities. The bonds are payable solely from loan repayments, interest on investments, and financing fees generated by the Fund. The State is not obligated to pay the bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or redemption price or interest on the bonds.

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 2001, were as follows (expressed in thousands). The principal amount shown differs from the amount on the combined balance sheet due to unamortized discounts of approximately \$1.1 million:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2002	\$ 4,225	\$ 5,738	\$ 9,963
2003	4,690	5,532	10,222
2004	4,930	5,304	10,234
2005	5,210	5,059	10,269
2006	5,535	4,796	10,331
Thereafter	<u>87,545</u>	<u>30,805</u>	<u>118,350</u>
Total	<u>\$112,135</u>	<u>\$57,234</u>	<u>\$169,369</u>

### Higher Education Fund

**Colleges and Universities** - The Boards of Trustees of State-supported colleges and universities are authorized to issue revenue bonds and notes for the purpose of financing all or part of the acquisition of land, the construction or renovation of buildings and the acquisition of furnishings or equipment for any such buildings of all State colleges and universities. The bonds, which are not general debt of the State, are payable from student tuition and other fees.

At June 30, 2001, college and university revenue bonds and notes payable outstanding were as follows (expressed in thousands):

	<b>Final Maturity Date</b>	<b>Interest Rate(s) %</b>	<b>Balance</b>
Henderson State University	2019	3.00 - 6.00	\$ 13,428
Southern Arkansas University - Magnolia	2014	3.50 - 6.00	4,660
Southern Arkansas University Tech - Camden	2015	5.25 - 5.54	680
Arkansas State University - Beebe	2023	3.00 - 6.61	5,180
Arkansas State University - Jonesboro	2031	3.00 - 5.88	53,816
Arkansas State University - Mountain Home	2019	4.80 - 5.88	7,348
Arkansas Tech University	2031	3.75 - 6.375	20,725
University of Arkansas at Fayetteville	2022	variable	80,556
University of Arkansas at Little Rock	2010	3.00 - 6.50	25,862
University of Arkansas for Medical Sciences	2019	1.90 - 11.00	88,936
University of Arkansas at Monticello	2018	variable	5,886
University of Arkansas at Pine Bluff	2027	3.625 - 7.01	12,493
University of Central Arkansas	2029	3.00 - 8.00	50,773
University of Arkansas at Hope Community College	2021	5.00 - 5.75	7,410
University of Arkansas Community College at Batesville	2018	variable	4,476
East Arkansas Community College	2012	3.50 - 6.00	1,625
Garland County Community College	2017	3.50 - 4.50	3,550
Mid-South Technical College	2019	4.40 - 5.36	10,050
Mississippi County Community College	2018	5.40 - 6.00	3,105
North Arkansas Community Technical College	2016	4.10 - 6.00	2,783
Phillips Community College of the University of Arkansas	2017	3.90 - 5.00	5,940
Rich Mountain Community College	2005	3.60 - 5.30	360
Westark College	2029	4.00	35,610
Northwest Arkansas Community College	2020	4.80 - 5.85	9,560
Cossatot Technical College	2004	11.00	173
Petit Jean College	2017	4.88	2,430
Pulaski Technical College	2021	variable	9,073
Total			<u>\$ 466,488</u>



Future amounts required to pay principal and interest on college and university revenue bonds and notes payable as of June 30, 2001, were as follows (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2002	\$ 24,323	\$ 18,522	\$ 42,845
2003	23,502	18,605	42,107
2004	22,723	17,670	40,393
2005	23,037	16,737	39,774
2006	22,609	15,829	38,438
Thereafter	<u>350,294</u>	<u>138,241</u>	<u>488,535</u>
Total	<u>\$466,488</u>	<u>\$225,604</u>	<u>\$692,092</u>

**Component Units -**

**Arkansas Student Loan Authority** - Revenue bonds are issued by ASLA pursuant to Act 873 of 1977 to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. Principal and interest payments are made from specifically dedicated revenues generated by ASLA. Revenue bonds do not constitute general debt of the State.

Revenue bonds outstanding at June 30, 2001, were as follows (expressed in thousands):

	<u>Final Maturity Date</u>	<u>Interest Rate(s) %</u>	<u>Balance</u>
Student Loan Revenue Bonds, Series 1992A-1	2006	5.95 - 6.40	\$ 27,045
Student Loan Revenue Bonds, Series 1992A-2	2006	6.75	2,120
Student Loan Revenue Bonds, Series 1993A-1	2006	5.75 - 6.13	2,230
Student Loan Revenue Bonds, Series 1994A	2009	adjustable	53,400
Student Loan Revenue Bonds, Series 1994B	2009	7.25	6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	adjustable	42,900
Student Loan Revenue Refunding Bonds, Series 1996B	2010	6.25	14,000
Student Loan Revenue Bonds, Series 1997A	2014	adjustable	31,150
Student Loan Revenue Refunding Bonds, Series 1997B	2014	5.10 - 5.60	17,400
Student Loan Revenue Refunding Bonds, Series 2000A-1	2030	adjustable	55,000
Student Loan Revenue Refunding Bonds, Series 2000A-2	2030	adjustable	<u>20,000</u>
Total			<u>\$271,845</u>

Future amounts required to pay principal and interest on revenue bonds at June 30, 2001, were as follows (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2002	\$ 13,005	\$ 13,101	\$ 26,106
2003	6,860	12,389	19,249
2004	3,620	12,117	15,737
2005	2,400	12,117	14,517
2006	8,390	11,854	20,244
Thereafter	<u>237,570</u>	<u>118,332</u>	<u>355,902</u>
Total	<u>\$ 271,845</u>	<u>\$ 179,910</u>	<u>\$ 451,755</u>

Revenue Bonds are reflected in the financial statements net of approximately \$22 thousand of discounts.

**Arkansas Development Finance Authority** - Pursuant to Act 1062, ADFA is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments and industrial enterprises.

Bonds and other debt instruments issued by ADFA are special obligations of ADFA payable solely from and collateralized by a first lien on the proceeds, monies, revenues, rights, interests, and collections pledged therefore under the resolutions authorizing the particular issues. The State is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal or redemption price of or interest on the bonds and other debt instruments. ADFA has no taxing power.

Bonds payable at June 30, 2001, were as follows (expressed in thousands):

	<u>Final Maturity Date</u>	<u>Interest Rates %</u>	<u>Balance</u>
Single Family Bonds Payable	2032	3.50 - 10.00	\$1,015,955
Multi-Family Bonds Payable	2027	3.50 - 9.75	184,886
Development Finance Programs Bonds Payable	2029	3.25 - 10.00	299,676
General Fund Note Payable	2001	3.57 - 3.98	<u>9,700</u>
Total			<u>\$1,510,217</u>

Future amounts required to pay principal and interest on ADFA debt at June 30, 2001, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized discounts of \$394 thousand:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2002	\$ 165,550	\$ 84,260	\$ 249,810
2003	45,445	81,367	126,812
2004	51,072	78,363	129,435
2005	51,224	75,072	126,296
2006	53,529	71,686	125,215
Thereafter	<u>1,143,791</u>	<u>813,722</u>	<u>1,957,513</u>
Total	<u>\$1,510,611</u>	<u>\$1,204,470</u>	<u>\$2,715,081</u>

## Prior Defeasances

### *Primary Government -*

In prior years, the State defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately \$75.3 million are considered defeased at June 30, 2001.

### *Component Units -*

In prior years, ADFA defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately \$66.8 million are considered defeased at June 30, 2001.

## NOTE 11: LEASES

The State has entered into various lease agreements with the private sector, primarily for buildings and equipment. These agreements are for various terms with most containing clauses indicating that their continuation is subject to continuing appropriation by the Legislature. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease.

The State also has lease agreements for buildings and equipment which are accounted for as capital leases. FASB Statement No. 13, *Accounting for Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a fixed asset and the incurrence of an obligation by the lessee. Capital leases for the nongovernmental funds are reported as a long-term obligation in those funds along with the related assets. Capital leases for the Governmental Funds are reported in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

The State also has direct-financing lease agreements with ADFA. These leases are reported separately from other capital leases in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

Most of these leases contain a fiscal funding addendum stating that the lease shall terminate on the last day of the fiscal year if appropriated funds for the ensuing fiscal year are insufficient. However, these leases are accounted for as capital leases and are considered non-cancelable for financial reporting purposes.

Future minimum commitments under operating and capital leases by fund type as of June 30, 2001, were as follows (expressed in thousands):

	Capital Leases	
	GLTDAG	Higher Education Fund
Year Ending June 30:		
2002	\$ 9,059	\$ 3,975
2003	4,636	3,531
2004	4,181	2,788
2005	3,895	1,746
2006	3,263	689
Thereafter	<u>3,088</u>	<u>22</u>
Total Minimum Lease Payments	28,122	12,751
Less: Interest	<u>(5,151)</u>	<u>(1,479)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 22,971</u>	<u>\$ 11,272</u>

	Capital Leases with Component Unit		
	GLTDAG	Proprietary Fund	Higher Education Fund
Year Ending June 30:			
2002	\$ 8,041	\$ 242	\$ 154
2003	8,035	241	157
2004	8,027	244	155
2005	8,017	241	157
2006	8,015	243	159
Thereafter	<u>42,312</u>	<u>1,447</u>	<u>153</u>
Total Minimum Lease Payments	82,447	2,658	935
Less: Interest	<u>(21,148)</u>	<u>(852)</u>	<u>(182)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 61,299</u>	<u>\$ 1,806</u>	<u>\$ 753</u>

	Operating Leases		
	General Government	Proprietary Fund	Higher Education Fund
Year Ending June 30:			
2002	\$ 12,654	\$ 202	\$ 5,029
2003	7,462	47	4,167
2004	4,479		2,834
2005	4,178		2,142
2006	2,068		1,289
Thereafter	<u>9,785</u>	<u>      </u>	<u>103</u>
Total Minimum Lease Payments	<u>\$ 40,626</u>	<u>\$ 249</u>	<u>\$ 15,564</u>

**NOTE 12: FUND EQUITY*****Designations***

Detail of designated general fund balance as of June 30, 2001, is as follows (expressed in thousands):

Continuing appropriations	\$ 60,193
Budget stabilization	<u>1,408,908</u>
Total (memorandum only)	<u>\$ 1,469,101</u>

Designations for budget stabilization reflect the intent of Arkansas financial laws with regard to future use of current financial resources.

***Deficit Retained Earnings***

The WCC had a \$10.7 million deficit in retained earnings as of June 30, 2001. The deficit was generated by a change in actuarial assumptions during the fiscal year ended June 30, 1997. If the deficit is not eliminated by normal operations, WCC has the ability to change the investment strategy to receive larger investment returns or increase the threshold of claims submitted to the WCC.

The Other Revolving Loan Funds had a \$2.1 million deficit in retained earnings as of June 30, 2001. Management of the Other Revolving Loan Funds is confident that the deficit will be eliminated through normal operations.

***Contributed Capital***

The changes in the State's contributed capital accounts for its proprietary funds were as follows:

	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
Balance July 1, 2000	\$120,924	\$14,008	\$ 134,932
Capitalization of federal grants	8,351	3,441	11,792
Capitalization of state grants	<u>      </u>	<u>2,300</u>	<u>2,300</u>
Balance June 30, 2001	<u>\$129,275</u>	<u>\$19,749</u>	<u>\$ 149,024</u>

#### NOTE 13: PENSIONS

**Plan Descriptions** - The State contributes to three single-employer defined benefit pension plans: Arkansas Judicial Retirement Plan ("Judicial"), Arkansas Highway and Transportation Retirement Plan ("Highway"), and Arkansas State Police Retirement System ("State Police"). State Police and Judicial are administered by Arkansas Public Employees Retirement System. Highway is administered by the plan itself. Each plan provides retirement, disability, and death benefits, in accordance with benefit provisions as established and amended by State Statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Judicial Retirement Plan	Arkansas Highway and Transportation Retirement Plan	Arkansas State Police Retirement Plan
One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855	P. O. Box 2261 Little Rock, AR 72203 (501) 569-2000	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

The State also contributes to two cost-sharing multiple-employer defined benefit plans: Teacher, administered by the Arkansas Teacher Retirement System Board of Trustees, and APERS, administered by the Arkansas Public Employees Retirement System Board of Trustees, which provide retirement, disability and death benefits, and annual cost of living adjustments to plan members and beneficiaries. Benefit provisions are established and amended by state statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Teacher Retirement Plan	Arkansas Public Employees Retirement Plan
1400 West Third Street Little Rock, AR 72201 (501) 682-1517	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

For the year ended June 30, 2001, the payroll of State employees covered by the pension plans was approximately \$853 million.

**Funding Policies** - State statute establishes the contribution requirements of plan members and the State. The State's annual pension cost for the current year and related information for each plan is as follows:

	<u>Judicial</u>	<u>Teacher</u>	<u>State Police</u>	<u>Highway</u>	<u>APERS</u>
Number of participating employers/contributing entities	1	411	1	1	798
Contribution rates for the fiscal year ended June 30, 2001 (% of covered payroll):					
State	26.00 %	12.00 %	26.91 %	12.90 %	10.00 %
Plan members - contributory plans	5.0% and 6.0%	6.00 %		6.00 %	6.00%
Annual pension cost (in thousands)	\$3,527	\$181,116	\$5,834	\$14,395	\$100,926
Contributions made (in thousands)	\$4,077	\$181,116	\$7,105	\$14,395	\$100,926

The required contribution amounts and the percentage contributed for Teacher and APERS for the current year and each of the two preceding years are as follows:

<u>Fiscal Year</u>	<u>Plan</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2001	Teacher	\$181,116	100 %
	APERS	100,926	100 %
2000	Teacher	\$175,687	100 %
	APERS	96,349	100 %
1999	Teacher	\$166,786	100 %
	APERS	93,323	100 %

State Police and APERS consist of both a contributory plan, which has been in effect since the beginning of the plans, and is available to all persons who became members prior to January 1, 1978; and a non-contributory plan, which was created by Act 793 of 1977 and was effective January 1, 1978. The non-contributory plan applies automatically to all persons hired January 1, 1978, or later. All non-retired members of the State Police are now covered by non-contributory benefits. Members of the Teacher plan contribute 6% of their salaries, except for members who became members before July 1, 1971, who can contribute only on the first \$7,800 of their annual salary; and effective July 1, 1993, all new members, including any former active members, were automatically enrolled as non-contributory members. By individual election, members of the Teacher plan may choose to contribute. Active members of the Judicial plan contribute 5% and 6% of their salaries. Members of the Judicial plan with 20 or more years of service and members age 65 or older with ten or more years of service do not contribute to the plan. Active members of the Highway plan contribute 6% of their salaries.

Included in the June 30, 2001, investment portfolio of APERS and the State Police plans are the following investments (other than those issued by the U.S. Government) in any one organization that represent 5% or more of plan net assets:

State Police - S&P 500 Index Fund  
APERS - S&P 500 Index Fund

The Teacher, Highway, and Judicial plans did not have investments of any commercial or industrial organization whose market value equals 5% or more of the individual plan's net assets available for benefits.

The State's 2001 contribution to APERS represented 100% of total contributions required of all participating entities. Beginning with the 1997 fiscal year, the State no longer contributes to Teacher. As required by Act 1194 of 1995, the State increased the local state supported school appropriations so that such retirement contributions come directly from the school districts.

The State's annual pension cost and net pension obligation (asset) to Judicial and State Police for the current year is as follows (in thousands):

	Judicial	State Police
Annual required contribution ("ARC")	\$ 3,356	\$ 5,765
Interest on net pension obligation	(778)	356
Adjustment to annual required contribution	<u>2,075</u>	<u>(369)</u>
Annual pension cost	4,653	5,752
Contributions made	<u>4,077</u>	<u>7,105</u>
Increase (decrease) in net pension obligation/ decrease in net pension asset	<u>576</u>	<u>(1,353)</u>
Net pension obligation (asset), beginning of year	<u>(10,561)</u>	<u>4,591</u>
Net pension obligation (asset), end of year	<u>\$ (9,985)</u>	<u>\$ 3,238</u>

For Highway, the statutory contributions made by the State equaled the annual required contributions ("ARC") required by GASB 27 for each of the fiscal years that began between December 15, 1986 and June 30, 1996, and therefore the State has neither a transition asset or liability.

No pension liability exists for Teacher or APERS, as the State's contributions to each respective plan for the year ending June 30, 2001, was equal to the ARC.

Three-year trend information for the single-employer plans is as follows:

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Judicial	6/30/2001	\$ 4,653	87.62 %	\$ (9,985)
	6/30/2000	3,126	101.86 %	(10,561)
	6/30/1999	3,150	129.17 %	(10,504)
State Police	6/30/2001	\$ 5,752	123.52 %	\$ 3,238
	6/30/2000	6,447	109.59 %	4,591
	6/30/1999	6,491	103.96 %	5,209
Highway	6/30/2001	\$14,395	100.00 %	N/A
	6/30/2000	13,948	100.00 %	N/A
	6/30/1999	14,499	100.00 %	N/A



### Higher Education

All active higher education employees who work 20 or more hours a week have the option of participating in either APERS, Teacher or the Teachers Insurance Annuity Association - College Retirement Equities Fund ("TIAA-CREF") or the Fidelity Fund.

TIAA-CREF and the Fidelity Fund were established by the Board of Trustees of each respective college or university. These funds represent a defined contribution plan as set forth in Section 403(b) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Each college or university contributes a percentage of an employee's salary, ranging from 5% to 10%, to a TIAA-CREF or Fidelity Fund retirement account, allocated between the two funds according to the employee's choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance. During 2001, total employer contributions to TIAA-CREF and Fidelity were \$38.5 million and \$7.1 million, respectively. Employee contributions to TIAA-CREF and Fidelity were \$33.7 million and \$5.3 million, respectively.

### NOTE 14: SEGMENT INFORMATION - ENTERPRISE FUND

Segment financial information for the State's enterprise funds is as follows (expressed in thousands):

Description	Workers' Compensation Commission	Construction	Other
		Assistance Revolving Loan Fund	Revolving Loan Funds
Operating revenues	\$ 18,493	\$ 13,057	\$ 687
Depreciation and amortization	174	262	-
Operating income (loss)	(5,934)	5,564	(1,043)
Operating transfers out	658		
Net income (loss)	1,607	5,564	(1,043)
Fixed asset additions	83		
Net working capital	153,697	255,295	17,604
Total assets	175,625	261,513	17,920
Long-term liabilities payable			
from operating revenues	175,542	111,061	-
Fund equity (deficit)	(10,690)	145,912	17,612

### NOTE 15: COMPONENT UNIT DISCLOSURES

The financial statements do not include the financial position or results of operations of foundations or other organizations affiliated with certain higher education institutions. Such organizations are separate nonprofit entities incorporated in the State. Their purpose is to assist affiliated higher education institutions in performing their work and services. Oversight of each organization is the responsibility of separate and independently elected boards of directors not otherwise affiliated with their respective higher education institutions. In carrying out their responsibilities, the boards of directors of the organizations employ management, form policy, and maintain fiscal accountability over funds administered by their respective organizations.

Condensed financial statements of discretely presented component units at June 30, 2001, are as follows (expressed in thousands):

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
<b>Balance Sheet</b>			
Assets:			
Other Assets	\$ 301,377	\$ 1,749,281	\$ 2,050,658
Fixed Assets, net	<u>27</u>	<u>487</u>	<u>514</u>
Total Assets	<u>\$ 301,404</u>	<u>\$ 1,749,768</u>	<u>\$ 2,051,172</u>
Liabilities:			
Other Liabilities	\$ 9,507	\$ 88,310	\$ 97,817
Revenue Bonds Payable	271,823		271,823
Special Obligation Bonds Payable	<u>          </u>	<u>1,510,217</u>	<u>1,510,217</u>
Total Liabilities	<u>281,330</u>	<u>1,598,527</u>	<u>1,879,857</u>
Fund Equity -			
Retained Earnings	<u>20,074</u>	<u>151,241</u>	<u>171,315</u>
Total Equity	<u>20,074</u>	<u>151,241</u>	<u>171,315</u>
Total Liabilities and Equity	<u>\$ 301,404</u>	<u>\$ 1,749,768</u>	<u>\$ 2,051,172</u>
<b>Statement of Operations</b>			
Operating Revenues	\$ 21,839	\$ 142,460	\$ 164,299
Operating Expenses	(16,859)	(112,411)	(129,270)
Depreciation and Amortization	<u>(625)</u>	<u>(1,345)</u>	<u>(1,970)</u>
Operating Income	4,355	28,704	33,059
Non-Operating Revenues			
Operating Grants	<u>          </u>	<u>13,339</u>	<u>13,339</u>
Net Income	4,355	42,043	46,398
Equity - Beginning of Year	<u>15,719</u>	<u>109,198</u>	<u>124,917</u>
Equity - End of Year	<u>\$ 20,074</u>	<u>\$ 151,241</u>	<u>\$ 171,315</u>

The above discretely presented component units of the State do not issue classified balance sheets; therefore, information regarding current assets and current liabilities is unavailable.

**NOTE 16: RISK MANAGEMENT PROGRAM**

The following describes the risk management programs administered by the State. There have been no significant reductions in insurance coverage from the prior year.

**Health and Life Plans**

Ark. Code Annotated § 21-5-401 et seq. changed its name, duties, and composition of the State and Public School Employees Life and Health Insurance Board (the "Board") and created the Employee Benefits Division ("EBD") within the Department of Finance and Administration. A.C.A. § 21-5-403 states that the State and Public School Life and Health Insurance Board shall be a policy-making body only. The executive director shall report upon request to the House and Senate Interim Committees on Insurance and Commerce regarding the state employees and public school insurance program. The Executive Director means the executive director of the EBD who oversees the daily operation of the EBD. The role of the EBD is that of managing the group health and life programs and other select benefit programs for active and retired state and public school employees. As required by A.C.A. § 21-5-405, the State and Public School Life and Health Insurance Board and the Executive Director take a risk management approach in designing the state employee and public school employee health benefit programs. In addition, the Board ensures that the state and public school employee health benefit programs are maintained on an actuarially sound basis as determined by actuarial standards established by the Board. Not included in this service are higher education, state police, and some portion of the states vocational and technical schools.

The Board provides the following employee benefits to State employees: comprehensive major medical that also includes basic dental, vision, and limited mental health; prescription drug benefit; basic and supplemental group term life insurance; a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account; and a deferred compensation plan with the option to participate in one or both of the deferred compensation companies. The State employees are self-insured for medical health, group term life insurance and pharmacy claims. Beginning January 1, 2001, the State became fully insured for the medical health and group term life insurance.

Public school employees are offered the comprehensive major medical plan that also includes basic dental, vision, and limited mental health; prescription drug benefit; and the basic and supplemental group term life insurance program. Each school district obtains its own cafeteria plan and any other benefits that are offered to public school employees by their school districts. The public school group is fully insured for the medical health and group term life insurance and self-insured for pharmacy claims.

Basic group term life insurance and accidental death and dismemberment coverage of \$5,000.00 is offered to all state and public school employees. The basic life insurance premium for state employees is \$5.60 per month and is fully funded by the life vendor. The basic life insurance premium for public school employees is \$0.65 per month and is fully funded by the life vendor. Supplemental coverage is offered to both state and public school employees. Supplemental life insurance premiums are bracketed by age for state employees and based on employee's annual salary for public school employees. The state and public school employee may also purchase dependent coverage.

Claim liabilities for the runoff of self-insured medical health insurance plans for the State employees and the prescription drug plan for the public school employees and State employees are based on actuarial estimates of the ultimate cost of claims that have been incurred (both reported and unreported) and are recorded in the general fund. An analysis of changes in aggregate liabilities for claims and claims adjustment expenses for the current and prior fiscal year are as follows (expressed in thousands):

	2001	2000
Claim liability, beginning of year	\$ 21,023	\$ 17,370
Incurred claims	86,756	144,335
Claims payments	<u>(109,799)</u>	<u>(140,682)</u>
Claim liability, end of year	<u>\$ 2,020</u>	<u>\$ 21,023</u>

The plans have not purchased any annuity contracts on behalf of claimants.

### **Risk Management Office**

The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies. Accordingly, State agencies retain the ultimate decision authority over whether to purchase commercial insurance coverage for property losses.

For those State buildings covered by commercial insurance, the building and contents are generally insured for the full amount of losses subject to varying deductible amounts up to \$25 thousand per occurrence. Losses arising from earthquakes are generally insured for the full amount of losses subject to a deductible of 5% of the building's value. Certain State agencies have chosen not to purchase commercial insurance on certain buildings, and as such, losses are recorded as expenditures in the General Fund when paid.

The State does not purchase liability insurance coverage for claims arising from third party losses on State property as the State has sovereign immunity against such claims. Claims against the State for such losses are heard before the State Claims Commission.

For those State vehicles covered by commercial insurance, the vehicle is generally insured for the full amount of losses subject to varying deductible amounts. Also, such commercial insurance generally provides coverage against liability losses up to \$100 thousand per occurrence in state and \$500 thousand per occurrence out of state. Certain State agencies have elected not to purchase commercial insurance for certain vehicles and losses on such vehicles are recorded as expenditures in the General Fund as paid. Liability losses arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

There have been no instances in the past three fiscal years wherein the amount of commercial insurance settlements have exceeded insurance coverage.

### **State Claims Commission**

The State Claims Commission was established by State law to hear and adjudicate all claims against the State and its agencies and component units excluding those arising from workers' compensation law, employment security law, and the acts of the various retirement plans. According to State law, only claims for actual damages are allowed. The Commission may authorize awards for actual damages up to \$7.5 thousand without further approval while amounts exceeding \$7.5 thousand must be approved by the State General Assembly. The claim liability is determined by review of pending claims and estimation of the ultimate cost to settle such claims and is recorded in the General Fund.

### **State Workers' Compensation Plans**

The State's Workers' Compensation Program (the "Program") was created by State law to provide benefits to State employees injured on the job. All employees of the State and its component units are included in the Program. Prior to July 1, 1994, employees of state sponsored school districts in the State were also included in the plan, and the State continues to pay benefits to those employees injured prior to that date. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Losses payable by the Program include medical claims, loss of wages, disability and death benefits.

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each State agency is responsible for contributing to the Program each year an amount determined by the division based on past claims experience. The State's liability for claims at

June 30, 2001, including claims incurred but not reported, is estimated to be approximately \$55.5 million and is recorded in the General Long-Term Debt Account Group as a component of claims and judgments payable.

The State also provides two forms of loss protection to employers and insurance companies operating in the State to minimize workers' compensation claims paid for wage losses. The first such plan was created by state law and is known as the Death & Permanent Total Disability Trust Fund ("Disability Trust Fund"). The Disability Trust Fund pays wage loss benefits in excess of \$75 thousand per case. The employer's primary insurer is responsible for the first \$75 thousand per case. The Disability Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the State and by assessments on self-insured employers as if they were commercially insured. The liability of the Disability Trust Fund at June 30, 2001, is based on actuarial estimates of ultimate claim costs, for both reported and unreported claims, discounted at 5% and is recorded in the Workers' Compensation Commission Enterprise Fund.

The second such plan was created by State law and is known as the Second Injury Trust Fund. The Second Injury Trust Fund generally pays wage loss benefits for persons which experience a repeated injury of the same body part while employed by a different employer than that which he experienced the first injury. The purpose of the Second Injury Trust Fund is to encourage the employment of persons who have previously filed workers' compensation claims by protecting subsequent employers from wage loss claims arising from repeat injuries. The Second Injury Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the state and by assessments on self-insured employers as if they were commercially insured. The claim liability is estimated by discounting at 5% the expected future claim payments of reported claims and is recorded in the Workers' Compensation Commission Enterprise Fund.

The Disability Trust Fund and the Second Injury Trust Fund are administered by the WCC. Changes in the combined balance of the Disability Trust Fund and Second Injury Trust Fund during the current fiscal year are as follows (expressed in thousands):

	<u>2001</u>	<u>2000</u>
Claim liability, beginning of year	\$ 170,202	\$ 168,120
Incurred Claims	14,621	12,514
Claim Payments	<u>(11,087)</u>	<u>(10,432)</u>
Claim liability, end of year	<u>\$ 173,736</u>	<u>\$ 170,202</u>

#### **Petroleum Storage Tank Trust Fund**

The Petroleum Storage Tank Trust Fund ("Storage Tank Fund") was established according to State law to provide owners and operators of petroleum storage tanks in the State protection from losses associated with accidental releases from qualified storage tanks. In order for a storage tank to qualify under the Storage Tank Fund it must be registered with all fees paid and meet certain construction and spill protection and detection standards at the time of the release. The Storage Tank Fund will pay first party claims for corrective action up to \$1 million per occurrence with a \$7.5 thousand deductible as well as third party claims for damages up to \$1 million per occurrence with a \$7.5 thousand deductible. The Storage Tank Fund is funded by motor fuel taxes and fees paid by storage tank owners and operators. The first party claim liability is determined through the use of engineering estimates of the remaining corrective action for each site. The third party claim liability is estimated at the plan limits for each third party claim filed until actual damages are determined and the liability is recorded in the General Long-Term Debt Account Group.

Changes in the balance of the Storage Tank Fund claim liability during the current fiscal year are as follows (expressed in thousands):

	<u>2001</u>	<u>2000</u>
Claim liability, beginning of year	\$ 10,860	\$ 8,445
Incurred Claims	12,059	5,349
Claim Payments	<u>(4,161)</u>	<u>(2,934)</u>
Claim liability, end of year	<u>\$ 18,758</u>	<u>\$ 10,860</u>

### Higher Education Health Plans

The System and Arkansas State University ("ASU") sponsor self-funded health plans for employees and their eligible dependents. All five System campuses, all ASU campuses, state-wide operating units of the Arkansas Archeological Survey and Division of Agriculture, System Administration, and the System Foundation participate in the health insurance programs, which are administered by third parties who are responsible for the processing of claims and administration of cost containment.

The universities pay a portion of the total premium for full time active employees, while retirees and former employees participate on a fully contributory basis.

Changes in the balance of the System and ASU claim liability during the current fiscal year are as follows (expressed in thousands):

	<u>2001</u>	<u>2000</u>
Claim liability, beginning of year	\$ 13,548	\$ 10,450
Incurred Claims	51,182	52,032
Claim Payments	<u>(53,205)</u>	<u>(48,934)</u>
Claim liability, end of year	<u>\$ 11,525</u>	<u>\$ 13,548</u>

The universities purchase specific reinsurance to reduce their exposure on large claims. Under the specific arrangement, the reinsurance carrier pays for claims for covered individuals which exceed specified limits. Such limits are \$250 thousand and \$100 thousand for the System and ASU, respectively.

The plans have not purchased any annuity contracts on behalf of claimants.

### NOTE 17: COMMITMENTS AND CONTINGENCIES

#### Primary Government -

**Litigation** - The State, its agencies and employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the State for property damage and personal injury, alleged inmate wrongs, other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of state law and other alleged violations of state and federal laws. Certain claims have been adjudicated against the State, but remained unpaid by the State as of the balance sheet date. The State has accrued liabilities in the approximate amount of \$13.3 million for the payment of such claims. For other cases which it is reasonably possible that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General and other counsel estimate the liability to be approximately \$18.5 million.

The State is also involved in a federal school desegregation lawsuit. The State has accrued approximately \$850 thousand for the settlement of these suits.

It is not possible to predict with certainty or exactitude the ultimate outcome of all lawsuits pending or threatened against the State, including those discussed above. Based on the current status of all of these legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of management and the Attorney General that the proceedings will not have a material adverse impact on the State's financial position.

The State is also involved in a lawsuit pertaining to the equalization of funds among the various school districts. If the State is found liable, it would have to increase future appropriations in an amount considered material to the financial statements.

**Federal Grants** - The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and federal revenue sharing entitlements. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits under either the Federal Single Audit Act or by grantor agencies of the Federal Government or their designees. At June 30, 2001, the amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the State expects such amounts, if any, to be immaterial.

**Loan Forgiveness** - Under the provisions of the Pulaski County Desegregation Settlement Agreement, the State agreed to provide loans to the Little Rock School District ("LRSD"). If the composite test scores of the LRSD minority students reach a specified level before December 1, 2001, any outstanding loan balance will be forgiven. The standard by which the test scores will be measured has yet to be determined by the parties. As of June 30, 2001, the State's loan receivable is \$20 million and is recorded in the General Fund.

**Construction and Other Commitments** - At June 30, 2001, the State has commitments of approximately \$1.25 billion for construction and other contracts. The Soil and Water Conservation Commission has approved \$60.6 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2001.

**Bond Guarantees** - The AEDC Bond Reserve Guaranty Fund is used to guarantee principal and interest on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 2001, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately \$37.2 million. AEDC has committed to guarantee \$5.5 million in industrial development revenue bonds that have not closed at June 30, 2001.

**Claims Incurred but not Reported** - The State has established a liability for both reported and unreported insured events, which includes estimates of future payments of claims and related claim adjustment expenses, based on the estimated ultimate cost of settling claims. In estimating its liability for incurred but unpaid claims, the State considers prior experience, industry information and currently recognized trends affecting data specific to the State. Because actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, and inflation, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates.

**Compensated Absences** - State employees earn vacation leave benefits on the basis of length of service time. Subject to certain restrictions, state employees are compensated for unused vacation time upon leaving the State's employment. Unused vacation time for employees of the governmental funds is accrued in the General Long-Term Debt Account Group.

**Arbitrage Rebates** - The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. The Construction Assistance Revolving Loan Fund, ADFA, and ASLA have made provisions for revenues above the rebate limit which must be remitted to the Federal Government.

#### NOTE 18: SUBSEQUENT EVENTS

**Primary Government** - In July 2001, the Arkansas Highway and Transportation Department issued, on behalf of the State, Federal Highway, Grant Anticipation and Tax Revenue Bond, Series 2001A, in the amount of \$185 million. The bonds are to provide financing for the cost of constructing and renovating improvements to interstate highways and related facilities in the State.

Subsequent to June 30, 2001, the Construction Assistance Revolving Loan Program issued approximately \$38.1 million in Series A Refunding bonds.

**Component Units** - Subsequent to June 30, 2001, ADFA issued approximately \$1.1 million and \$45 million, in special obligation bonds in the Economic Development Program Fund and Multi-Family Housing Program Fund, respectively.

On September 7, 2001, HUD issued the Monitoring Report of the Home Program ("Monitoring Report") for the 1998, 1999, and 2000 program years. The report contained numerous findings, the most significant of which was the lack of documentation of environmental reviews. The Monitoring Report does allow ADFA to cure the inequities by either documenting compliance by completing an environmental review or obtaining statutory dispensation granted through congressional action. ADFA is in the process of obtaining environmental reviews on the projects as well as working with the United States Congress on the passage of a bill granting statutory dispensation (HR2620). The Monitoring Report did not disallow any cost associated with the lack of environmental reviews. Management of ADFA does not anticipate any disallowed cost as a result of the findings of this report.

In October 2001, ADFA's Board of Directors committed \$1 million from the general fund in interim financing for the Home projects currently underway.

\* \* \* \* \*



**Required Supplementary Information**  
**Schedule of Funding Progress**  
**(Expressed in Thousands)**

<b>Fiscal Year</b>	<b>Plan</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL (Overfunded) as a Percentage of Covered Payroll</b>
2001	Judicial	6/30/2001	\$119,191	\$116,073	\$ (3,118)	102.7 %	\$ 14,869	(21.0)%
		6/30/2001	229,921	242,355	12,434	94.9 %	20,158	61.7 %
		6/30/2001	971,569	860,314	(111,255)	112.9 %	106,728	(104.2)%
2000	Judicial	6/30/2000	\$107,059	\$ 83,211	\$ (23,848)	128.7 %	\$ 14,371	(165.9)%
		6/30/2000	222,868	232,988	10,120	95.7 %	20,452	49.5 %
		6/30/2000	870,292	768,300	(101,972)	113.3 %	104,572	(97.5)%
1999	Judicial	6/30/1999	\$ 91,783	\$ 82,775	\$ (9,008)	110.9 %	\$ 13,891	(64.8)%
		6/30/1999	201,751	221,167	19,416	91.2 %	20,388	95.2 %
		6/30/1999	755,039	727,900	(27,139)	103.7 %	105,232	(25.8)%

**Note to Required Supplementary Information**

**Actuarial Assumptions** - The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>Judicial</u>	<u>State Police</u>	<u>Highway</u>
Actuarial valuation date	June 30, 2001	June 30, 2001	June 30, 2001
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percentage of Pay, Closed	Level Percentage of Pay, Closed	Level Percentage of Pay, Open
Remaining amortization period	N/A**	21 years	N/A
Asset valuation method	4 Year Smoothed Market	4 Year Smoothed Market	5 Year Smoothed Market
Actuarial assumptions:			
Inflation rate	5 %	4.75 %	4.50 %
Investment rate of return*	7.5 %	7.75 %	8.00 %
Projected salary increases*	5.0% to 7.2%	5.75% to 9.55%	5.0% to 11.0%
Post retirement benefit increases	3.0 %	3.0 %	3.0 %

\*Includes assumed inflation.

\*\*The Judicial Board of Trustees has elected to segregate excess funding amounts in a contingency reserve and to exclude these amounts in the determination of employer contribution rates. Therefore, amortization of the net pension asset of approximately \$10 million is not reflected in the computation of the annual required contribution.

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## ENTERPRISE FUNDS

The enterprise funds are used to account for operations of those state agencies and/or programs providing goods or services to the general public or a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The enterprise funds consist of the following:

***Workers' Compensation Commission*** - This agency is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment.

***Construction Assistance Revolving Loan Fund*** - This program is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities.

***Other Revolving Loan Funds*** - These programs are responsible for providing a perpetual fund for financing the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation of water systems and the financing of capitalizable educational and general projects for community and technical colleges.

# Enterprise Funds

## Combining Balance Sheet

June 30, 2001  
(Expressed in Thousands)

	Workers' Compensation Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 155,490	\$ 41,602	\$ 7,661	\$ 204,753
Investments		37,678		37,678
Receivables, net:				
Accounts	8,479	82		8,561
Loans		179,771	10,193	189,964
Investment related	501	702	58	1,261
Fixed assets, net	2,996		8	3,004
Other assets	<u>8,159</u>	<u>1,678</u>	<u></u>	<u>9,837</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 175,625</b></u>	<u><b>\$ 261,513</b></u>	<u><b>\$ 17,920</b></u>	<u><b>\$ 455,058</b></u>
<b>LIABILITIES AND EQUITY:</b>				
Liabilities:				
Accounts payable	\$ 492	\$ 604	\$ 15	\$ 1,111
Accrued and other liabilities	10,281	482		10,763
Deferred revenues		3,454	293	3,747
Workers' compensation benefits payable	173,736			173,736
Capital leases	1,806			1,806
Special obligation bonds payable	<u></u>	<u>111,061</u>	<u></u>	<u>111,061</u>
Total liabilities	<u>186,315</u>	<u>115,601</u>	<u>308</u>	<u>302,224</u>
Equity:				
Retained earnings (deficit) unreserved	(10,690)	16,637	(2,137)	3,810
Contributed capital	<u></u>	<u>129,275</u>	<u>19,749</u>	<u>149,024</u>
Total equity (deficit)	<u>(10,690)</u>	<u>145,912</u>	<u>17,612</u>	<u>152,834</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u><b>\$ 175,625</b></u>	<u><b>\$ 261,513</b></u>	<u><b>\$ 17,920</b></u>	<u><b>\$ 455,058</b></u>

**Enterprise Funds****Combining Statement of Revenues, Expenses and Changes in Retained Earnings  
(Deficit)****For the Fiscal Year Ended June 30, 2001****(Expressed in Thousands)**

	<u>Workers' Compensation Commission</u>	<u>Construction Assistance Revolving Loan Fund</u>	<u>Other Revolving Loan Funds</u>	<u>Total</u>
OPERATING REVENUES:				
Licenses, permits and fees	\$ 7,445			\$ 7,445
Investment earnings		\$ 13,005	\$ 656	13,661
Insurance tax	10,432			10,432
Other	<u>616</u>	<u>52</u>	<u>31</u>	<u>699</u>
Total Operating Revenues	<u>18,493</u>	<u>13,057</u>	<u>687</u>	<u>32,237</u>
OPERATING EXPENSES:				
General and administrative	24,253	1,328	1,730	27,311
Interest		5,903		5,903
Depreciation	174			174
Amortization	<u></u>	<u>262</u>	<u></u>	<u>262</u>
Total Operating Expenses	<u>24,427</u>	<u>7,493</u>	<u>1,730</u>	<u>33,650</u>
Operating Income (Loss)	<u>(5,934)</u>	<u>5,564</u>	<u>(1,043)</u>	<u>(1,413)</u>
NON-OPERATING REVENUES (EXPENSES):				
Investment earnings	8,323			8,323
Interest	<u>(124)</u>	<u></u>	<u></u>	<u>(124)</u>
Total Non-Operating Revenue	<u>8,199</u>	<u></u>	<u></u>	<u>8,199</u>
Income (Loss) Before Operating Transfers	<u>2,265</u>	<u>5,564</u>	<u>(1,043)</u>	<u>6,786</u>
OPERATING TRANSFERS -				
Operating transfers out - primary government	<u>(658)</u>	<u></u>	<u></u>	<u>(658)</u>
NET INCOME (LOSS)	<u>1,607</u>	<u>5,564</u>	<u>(1,043)</u>	<u>6,128</u>
RETAINED EARNINGS (DEFICIT)				
AT BEGINNING OF YEAR	<u>(12,297)</u>	<u>11,073</u>	<u>(1,904)</u>	<u>(2,318)</u>
RETAINED EARNINGS (DEFICIT)				
AT END OF YEAR	<u>\$ (10,690)</u>	<u>\$ 16,637</u>	<u>\$ (2,137)</u>	<u>\$ 3,810</u>



**Enterprise Funds**  
**Combining Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2001**  
**(Expressed in Thousands)**

	Workers' Compensation Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (5,934)	\$ 5,564	\$ (1,043)	\$ (1,413)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:				
Depreciation, accretion and amortization	174	(152)	1	23
Net depreciation on investments		(1,143)		(1,143)
Loss on disposals of assets	3			3
Changes in operating assets and liabilities:				
Accounts receivable	276	58		334
Investment related receivable	1,730	157	8	1,895
Other assets	(15)	35		20
Accounts payable and accrued expenses	(9)	161	(71)	81
Workers' compensation benefits payable	3,535			3,535
Other liabilities		(15)		(15)
Net Cash Provided (Used) by Operating Activities	<u>(240)</u>	<u>4,665</u>	<u>(1,105)</u>	<u>3,320</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>				
Operating transfers out to other funds	(658)			(658)
Repayment of bonds		(3,705)		(3,705)
Interest expense	<u>(125)</u>			<u>(125)</u>
Net Cash Used by Non-Capital Financing Activities	<u>(783)</u>	<u>(3,705)</u>		<u>(4,488)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Capital lease obligation	(120)			(120)
Loan cost of issuance paid by borrowers			137	137
Proceeds from grants		8,351	5,741	14,092
Acquisition of capital assets	<u>(39)</u>			<u>(39)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(159)</u>	<u>8,351</u>	<u>5,878</u>	<u>14,070</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of investments		(4,946)		(4,946)
Investment earnings	8,323			8,323
Proceeds from sales and maturities of investments		21,980		21,980
Loan disbursements		(16,070)	(4,727)	(20,797)
Principal repayments on loans		<u>10,770</u>	<u>182</u>	<u>10,952</u>
Net Cash Provided (Used) by Investing Activities	<u>8,323</u>	<u>11,734</u>	<u>(4,545)</u>	<u>15,512</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>7,141</b>	<b>21,045</b>	<b>228</b>	<b>28,414</b>
<b>CASH AND CASH EQUIVALENTS:</b>				
Beginning of year	<u>148,349</u>	<u>20,557</u>	<u>7,433</u>	<u>176,339</u>
End of year	<u>\$155,490</u>	<u>\$ 41,602</u>	<u>\$ 7,661</u>	<u>\$ 204,753</u>



TRUST AND AGENCY FUNDS



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## TRUST AND AGENCY FUNDS

Trust and agency funds are used to account for assets held by the State in a fiduciary capacity or as an agent for individuals, private organizations, or other governments and/or funds. The trust and agency funds consist of the following:

***Expendable Trust Fund*** - This fund is accounted for in essentially the same manner as governmental funds and is administered by the Arkansas Employment Security Department to eligible unemployed workers.

***Pension Trust Funds*** - These funds are accounted for in essentially the same manner as proprietary funds, and includes Judicial, Teacher, State Police, Highway, and APERS retirement plans.

***Agency Funds*** - These funds are custodial in nature and do not involve measurement of operations. Included in these funds are assets held by the Insurance Department and various other state agencies.



## Trust and Agency Funds Combining Balance Sheet

June 30, 2001  
(Expressed in Thousands)

	Expendable Trust	Pension Trust		
	Employment Security Division	Judicial	Teacher	State Police
ASSETS:				
Cash and cash equivalents	\$242,548	\$ 5,901	\$ 203,599	\$ 17,256
Investments		109,157	8,190,817	216,861
Receivables, net:				
Accounts	44,168		151	
Employer			4,566	3
Employee			7,094	
Investment related		1,326	227,817	2,546
Due from other governments	6,708			
Due from other funds - primary government	953			
Advances to other funds - primary government			20,705	
Fixed assets, net			1,238	
Other assets			50	
<b>TOTAL ASSETS</b>	<b><u>\$294,377</u></b>	<b><u>\$ 116,384</u></b>	<b><u>\$ 8,656,037</u></b>	<b><u>\$236,666</u></b>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable	\$ 410	\$ 869	\$ 121	
Accrued and other liabilities	69,612		1,013,052	\$ 32,363
Due to other governments	4,142			
Due to other funds - primary government				
Agency liabilities				
Total Liabilities	<u>74,164</u>	<u>869</u>	<u>1,013,173</u>	<u>32,363</u>
Fund balance:				
Reserved for unemployment compensation	220,213			
Reserved for employee pension benefits		115,515	7,642,864	204,303
Total Fund Balance	<u>220,213</u>	<u>115,515</u>	<u>7,642,864</u>	<u>204,303</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$294,377</u></b>	<b><u>\$ 116,384</u></b>	<b><u>\$ 8,656,037</u></b>	<b><u>\$236,666</u></b>

		Agency Funds		
Highway	APERS	Insurance Department	Other Agencies	Total
\$ 38,677	\$ 310,548	\$ 12,643	\$ 15,655	\$ 846,827
950,868	4,457,001	435,826		14,360,530
	8,970			53,289
562	1,442			6,573
294				7,388
8,403	83,842			323,934
				6,708
				953
				20,705
	140			1,378
	25			75
<u>\$ 998,804</u>	<u>\$ 4,861,968</u>	<u>\$ 448,469</u>	<u>\$ 15,655</u>	<u>\$ 15,628,360</u>
\$ 132	\$ 846,981			\$ 1,400
				1,962,140
				4,142
			\$ 126	126
		<u>\$ 448,469</u>	<u>15,529</u>	<u>463,998</u>
<u>132</u>	<u>846,981</u>	<u>448,469</u>	<u>15,655</u>	<u>2,431,806</u>
<u>998,672</u>	<u>4,014,987</u>			220,213
				<u>12,976,341</u>
<u>998,672</u>	<u>4,014,987</u>			<u>13,196,554</u>
<u>\$ 998,804</u>	<u>\$ 4,861,968</u>	<u>\$ 448,469</u>	<u>\$ 15,655</u>	<u>\$ 15,628,360</u>

# **Pension Trust Funds** **Combining Statement of Changes in Plan Net Assets Held in Trust for** **Pension Benefits**

**For the Fiscal Year Ended June 30, 2001**  
**(Expressed in Thousands)**

	Judicial	Teacher	State Police	Highway	APERS	Total
<b>ADDITIONS:</b>						
Contributions:						
Employer	\$ 4,077	\$ 181,116	\$ 7,105	\$ 14,395	\$ 100,926	\$ 307,619
Employee	<u>745</u>	<u>68,718</u>		<u>6,848</u>	<u>301</u>	<u>76,612</u>
Total Contributions	<u>4,822</u>	<u>249,834</u>	<u>7,105</u>	<u>21,243</u>	<u>101,227</u>	<u>384,231</u>
Investment income (loss):						
Net depreciation in fair value of investments	(5,731)	(435,733)	(28,115)	(39,741)	(300,060)	(809,380)
Interest	3,873	163,305	4,601	34,467	96,343	302,589
Dividends	629	55,759	543	1,090	19,677	77,698
Real estate operating income		5,116			2,392	7,508
Other		49,371	2,160	1,470	30,822	83,823
Less investment expense	<u>(535)</u>	<u>(88,933)</u>	<u>(2,869)</u>	<u>(3,179)</u>	<u>(38,777)</u>	<u>(134,293)</u>
Net Investment Loss	<u>(1,764)</u>	<u>(251,115)</u>	<u>(23,680)</u>	<u>(5,893)</u>	<u>(189,603)</u>	<u>(472,055)</u>
Other additions - Miscellaneous revenues	<u>54</u>	<u>702</u>	<u>72</u>		<u>7,533</u>	<u>8,361</u>
<b>TOTAL ADDITIONS (LOSSES)</b>	<u>3,112</u>	<u>(579)</u>	<u>(16,503)</u>	<u>15,350</u>	<u>(80,843)</u>	<u>(79,463)</u>
<b>DEDUCTIONS:</b>						
Annuity benefits	3,770	323,392	12,197	35,108	135,331	509,798
Refunds of employee contributions	19	2,975		1,134	369	4,497
Administrative expenses	49	8,258	168		3,854	12,329
Other deductions				<u>607</u>	<u>8</u>	<u>615</u>
<b>TOTAL DEDUCTIONS</b>	<u>3,838</u>	<u>334,625</u>	<u>12,365</u>	<u>36,849</u>	<u>139,562</u>	<u>527,239</u>
<b>NET DECREASE</b>	<u>(726)</u>	<u>(335,204)</u>	<u>(28,868)</u>	<u>(21,499)</u>	<u>(220,405)</u>	<u>(606,702)</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT BEGINNING OF YEAR</b>	<u>116,241</u>	<u>7,978,068</u>	<u>233,171</u>	<u>1,020,171</u>	<u>4,235,392</u>	<u>13,583,043</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT END OF YEAR</b>	<u>\$ 115,515</u>	<u>\$ 7,642,864</u>	<u>\$ 204,303</u>	<u>\$ 998,672</u>	<u>\$ 4,014,987</u>	<u>\$ 12,976,341</u>



# **Pension Trust Funds** **Statement of Net Plan Assets**

**June 30, 2001**  
**(Expressed in Thousands)**

	Judicial	Teacher	State Police	Highway	APERS
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,901	\$ 203,599	\$ 17,256	\$ 38,677	\$ 310,548
Investments	109,157	8,190,817	216,861	950,868	4,457,001
Receivables, net:					
Accounts		151			
Employer		4,566	3	562	8,970
Employee		7,094		294	1,442
Investment related	1,326	227,817	2,546	8,403	83,842
Advances to other funds - primary government		20,705			
Fixed assets, net		1,238			140
Other assets		50			25
Total Assets	<u>\$ 116,384</u>	<u>\$ 8,656,037</u>	<u>\$ 236,666</u>	<u>\$ 998,804</u>	<u>\$ 4,861,968</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 869	\$ 121			
Accrued and other liabilities		1,013,052	\$ 32,363	\$ 132	\$ 846,981
Total Liabilities	<u>869</u>	<u>1,013,173</u>	<u>32,363</u>	<u>132</u>	<u>846,981</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 115,515</u>	<u>\$ 7,642,864</u>	<u>\$ 204,303</u>	<u>\$ 998,672</u>	<u>\$ 4,014,987</u>

## Agency Funds

### Statement of Changes in Assets and Liabilities

For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
INSURANCE DEPARTMENT:				
Assets:				
Cash and cash equivalents	\$ 19,731		\$ 7,088	\$ 12,643
Investments	<u>421,457</u>	<u>\$ 14,369</u>	<u>          </u>	<u>435,826</u>
TOTAL	<u>\$ 441,188</u>	<u>\$ 14,369</u>	<u>\$ 7,088</u>	<u>\$ 448,469</u>
Liabilities - Agency liabilities	<u>\$ 441,188</u>	<u>\$ 14,369</u>	<u>\$ 7,088</u>	<u>\$ 448,469</u>
OTHER AGENCIES:				
Assets:				
Cash and cash equivalents	\$ 29,101	\$ 46,858	\$ 60,304	\$ 15,655
Investments	585		585	
Due from other governments	<u>81</u>	<u>          </u>	<u>81</u>	<u>          </u>
TOTAL	<u>\$ 29,767</u>	<u>\$ 46,858</u>	<u>\$ 60,970</u>	<u>\$ 15,655</u>
Liabilities:				
Due to other governments	\$ 14		\$ 14	
Due to other funds - primary government	56	\$ 146	76	\$ 126
Agency liabilities	<u>29,697</u>	<u>41,455</u>	<u>55,623</u>	<u>15,529</u>
TOTAL	<u>\$ 29,767</u>	<u>\$ 41,601</u>	<u>\$ 55,713</u>	<u>\$ 15,655</u>

HIGHER EDUCATION FUND



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Arkansas State Board of Nursing



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## Higher Education Fund

**State Board of Higher Education** - The State Board of Higher Education is empowered with the duty to determine, control, supervise and manage the financial, business and educational policies and affairs of the state institutions of Higher Education under its jurisdiction. These institutions are as follows:

### **State Colleges and Universities:**

#### Four Year:

- University of Arkansas System
- Regional Campuses of University of Arkansas:
  - University of Arkansas at Fayetteville
  - University of Arkansas at Little Rock
  - University of Arkansas at Monticello
  - University of Arkansas at Pine Bluff
- Specialized Institutions:
  - University of Arkansas School of Law
  - University of Arkansas for Medical Sciences
- Arkansas State University
- Arkansas Tech University
- Henderson State University
- Southern Arkansas University
- University of Central Arkansas

#### Community Colleges:

- East Arkansas Community College
- Garland County Community College
- Mississippi County Community College
- North Arkansas College
- Northwest Arkansas Community College
- Phillips Community College of the U of A
- Rich Mountain Community College
- Westark College
- South Arkansas Community College

#### Two Year Branches:

- Southern Arkansas University - Tech
- Arkansas State University - Beebe
- Arkansas State University - Mountain Home
- Black River Technical College
- Cossatot Technical College
- Ozarka College
- Petit Jean College
- Ouachita Technical College
- University of Arkansas Community College at Hope
- Mid-South Community College
- Southeast Arkansas College
- Pulaski Technical College
- University of Arkansas Community College at Batesville



# Higher Education Fund

## Combining Balance Sheet

June 30, 2001

(Expressed in Thousands)

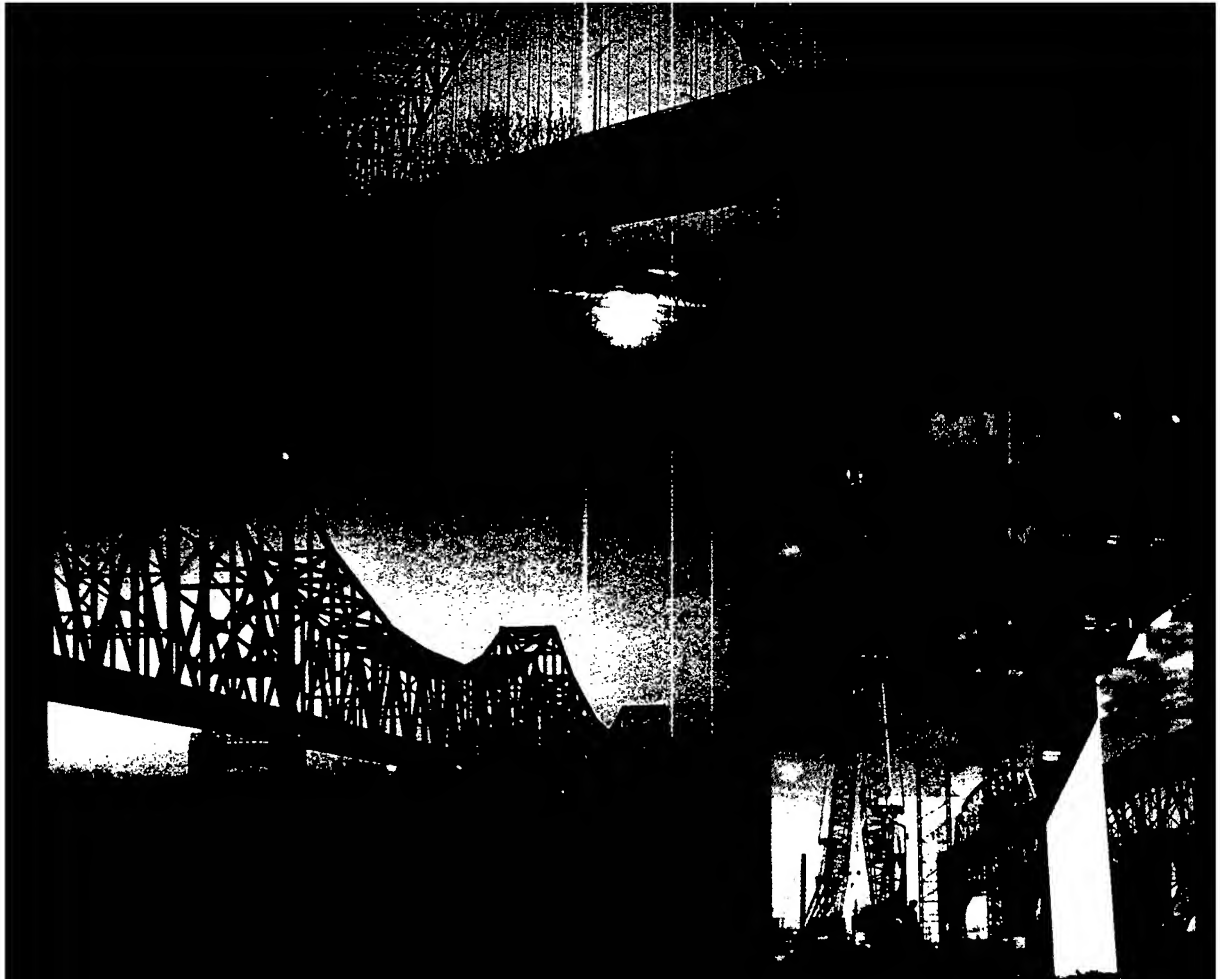
	Current Funds			Endowment and Similar
	Unrestricted	Restricted	Loan	
ASSETS:				
Cash and cash equivalents	\$ 127,232	\$ 6,042	\$ 2,991	\$ 9,192
Investments	92,712	10,906	5,551	106,712
Receivables, net:				
Accounts	125,270	35,364	292	53
Notes and deposits	2,344		42,994	
Investment related	141	11	1,225	53
Due from other funds - primary government	5,610			
Due from other funds - higher education	5,517	252		
Inventories	14,825	297		
Fixed assets, net				
Other assets	<u>7,995</u>	<u>162</u>	<u>105</u>	<u>1,463</u>
Total assets	<u>\$ 381,646</u>	<u>\$ 53,034</u>	<u>\$ 53,158</u>	<u>\$ 117,473</u>
LIABILITIES, EQUITY AND OTHER CREDITS:				
Liabilities:				
Accounts payable	\$ 48,387	\$ 4,814	\$ 46	
Accrued and other liabilities	75,319	157		\$ 588
Deferred revenues	20,431	2,899		
Due to other funds - primary government	88			
Due to other funds - higher education	6,225	4,466	69	931
Advances from other funds				
Capital leases				
Notes payable				
Revenue bonds				
Total Liabilities	<u>150,450</u>	<u>12,336</u>	<u>115</u>	<u>1,519</u>
Equity and other credits:				
Net investment in fixed assets				
Fund balance:				
Reserved		40,698	53,043	
Unreserved	<u>231,196</u>			<u>115,954</u>
Total Equity and Other Credits	<u>231,196</u>	<u>40,698</u>	<u>53,043</u>	<u>115,954</u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	<u>\$ 381,646</u>	<u>\$ 53,034</u>	<u>\$ 53,158</u>	<u>\$ 117,473</u>

Plant Funds	Agency Fund	Total
\$ 175,142	\$ 2,946	\$ 323,545
105,313	313,672	634,866
6,348	130	167,457
9,599		54,937
112		1,542
		5,610
7,111	83	12,963
		15,122
2,532,185		2,532,185
<u>2,670</u>		<u>12,395</u>
<u>\$ 2,838,480</u>	<u>\$ 316,831</u>	<u>\$ 3,760,622</u>
\$ 17,316	\$ 228	\$ 70,791
2,820	316,584	395,468
		23,330
		88
1,253	19	12,963
14,769		14,769
12,025		12,025
15,217		15,217
<u>451,271</u>		<u>451,271</u>
<u>514,671</u>	<u>316,831</u>	<u>995,922</u>
2,116,942		2,116,942
130,652		340,347
<u>76,215</u>		<u>307,411</u>
<u>2,323,809</u>		<u>2,764,700</u>
<u>\$ 2,838,480</u>	<u>\$ 316,831</u>	<u>\$ 3,760,622</u>





**GENERAL FIXED ASSETS  
ACCOUNT GROUP**



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Arkansas Highway & Transportation Department



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## **GENERAL FIXED ASSETS ACCOUNT GROUP**

The General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for use by the State for general governmental purposes. These include all fixed assets except those accounted for in the Proprietary, Fiduciary, and Higher Education Funds and Component Units.

## Schedule of General Fixed Assets by Source

June 30, 2001 (Expressed in Thousands)

General Fixed Assets:	
Land	\$ 192,954
Buildings	677,396
Equipment	251,913
Construction in progress	<u>140,692</u>
Total General Fixed Assets	<u>\$ 1,262,955</u>
Investment in General Fixed Assets by Source -	
General fund	<u>\$ 1,262,955</u>
Total Investment in General Fixed Assets	<u>\$ 1,262,955</u>

## Schedule of General Fixed Assets by Function and Activity

June 30, 2001 (Expressed in Thousands)

Function and Activity	Land	Buildings	Equipment	Construction in Progress	Total
Education	\$ 730	\$ 46,848	\$ 17,486	\$ 6,034	\$ 71,098
Health and human resources	6,555	139,394	18,424	6,912	171,285
Transportation	1,069	80,701	91,762	4,689	178,221
Law, justice and public safety	39,258	261,455	53,357	65,579	419,649
Recreation and resource development	136,300	66,892	22,066	40,665	265,923
General government	8,797	72,766	40,737	14,817	137,117
Regulation of business and professionals	<u>245</u>	<u>9,340</u>	<u>8,081</u>	<u>1,996</u>	<u>19,662</u>
Total	<u>\$192,954</u>	<u>\$ 677,396</u>	<u>\$ 251,913</u>	<u>\$ 140,692</u>	<u>\$ 1,262,955</u>

## Schedule of Changes in General Fixed Assets by Function and Activity

For the Fiscal Year Ended June 30, 2001 (Expressed in Thousands)

Function and Activity	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Education	\$ 65,066	\$ 7,039	\$ 1,007	\$ 71,098
Health and human resources	167,760	13,584	10,059	171,285
Transportation	156,811	36,688	15,278	178,221
Law, justice and public safety	405,025	20,826	6,202	419,649
Recreation and resource development	243,053	32,801	9,932	265,923
General government	133,310	14,952	11,144	137,117
Regulation of business and professionals	<u>19,645</u>	<u>686</u>	<u>669</u>	<u>19,662</u>
Total	<u>\$ 1,190,670</u>	<u>\$ 126,576</u>	<u>\$ 54,291</u>	<u>\$ 1,262,955</u>



DISCRETELY PRESENTED  
COMPONENT UNITS



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## DISCRETELY PRESENTED COMPONENT UNITS

Component Units are those entities which are legally separate government organizations for which the State's elected officials are financially accountable, or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading. Discretely Presented Component Units consist of the following:

***Arkansas Student Loan Authority*** - ASLA provides guaranteed educational loans to Arkansas students attending eligible post secondary institutions, and serves as a secondary market and liquidity provider to Arkansas lending institutions which originate guaranteed student loans.

***Arkansas Development Finance Authority*** - ADFA provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprise, health care, infrastructure projects, jails and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture and exporting.

# Discretely Presented Component Units Combining Balance Sheet

June 30, 2001

(Expressed in Thousands)

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 67	\$ 118,419	\$ 118,486
Investments	57,158	1,149,138	1,206,296
Receivables, net:			
Accounts		2,195	2,195
Loans	232,646	394,333	626,979
Investment related	7,549	8,799	16,348
Fixed assets, net	27	487	514
Other assets	<u>3,957</u>	<u>76,397</u>	<u>80,354</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 301,404</b></u>	<u><b>\$ 1,749,768</b></u>	<u><b>\$ 2,051,172</b></u>
<b>LIABILITIES AND RETAINED EARNINGS:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 1,977	\$ 6,302	\$ 8,279
Accrued and other liabilities		82,008	82,008
Notes payable	7,530		7,530
Revenue bonds payable	271,823		271,823
Special obligation bonds payable	<u></u>	<u>1,510,217</u>	<u>1,510,217</u>
Total Liabilities	<u>281,330</u>	<u>1,598,527</u>	<u>1,879,857</u>
<b>Retained earnings:</b>			
Unreserved	20,074	43,904	63,978
Reserved for bond programs	<u></u>	<u>107,337</u>	<u>107,337</u>
Total Retained Earnings	<u>20,074</u>	<u>151,241</u>	<u>171,315</u>
<b>TOTAL LIABILITIES AND RETAINED EARNINGS</b>	<u><b>\$ 301,404</b></u>	<u><b>\$ 1,749,768</b></u>	<u><b>\$ 2,051,172</b></u>

**Discretely Presented Component Units**  
**Combining Statement of Revenues, Expenses and Changes in Retained Earnings**  
**For the Fiscal Year Ended June 30, 2001**  
**(Expressed in Thousands)**

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
OPERATING REVENUES:			
Investment earnings	\$ 20,584	\$ 142,438	\$ 163,022
Other	<u>1,255</u>	<u>22</u>	<u>1,277</u>
Total Operating Revenues	<u>21,839</u>	<u>142,460</u>	<u>164,299</u>
OPERATING EXPENSES:			
General and administration	551	24,328	24,879
Interest	12,478	88,083	100,561
Other	<u>4,455</u>	<u>1,345</u>	<u>5,800</u>
Total Operating Expenses	<u>17,484</u>	<u>113,756</u>	<u>131,240</u>
Operating Income	<u>4,355</u>	<u>28,704</u>	<u>33,059</u>
NON-OPERATING REVENUE -			
Grants, entitlements and shared revenues	<u>          </u>	<u>13,339</u>	<u>13,339</u>
Total Non-operating Revenue	<u>          </u>	<u>13,339</u>	<u>13,339</u>
NET INCOME	<u>4,355</u>	<u>42,043</u>	<u>46,398</u>
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>15,719</u>	<u>109,198</u>	<u>124,917</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 20,074</u>	<u>\$ 151,241</u>	<u>\$ 171,315</u>



## Discretely Presented Component Units Combining Statement of Cash Flows

For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operating income	\$ 4,355	\$ 28,704	\$ 33,059
Adjustments to reconcile operating income to cash used by operating activities:			
Depreciation, accretion and amortization, net	644	(10,645)	(10,001)
Provision for arbitrage rebate	5		5
Net depreciation on investments		(38,631)	(38,631)
Provision for loan loss		5,200	5,200
Changes in operating assets and liabilities:			
Accounts receivable		773	773
Accrued rent receivable		76	76
Loans receivable	(38,082)		(38,082)
Investment related receivable	(3,473)	2,290	(1,183)
Other assets	(279)	290	11
Accounts payable and accrued expenses	(223)	(2,681)	(2,904)
Other liabilities		(3,119)	(3,119)
Net Cash Used by Operating Activities	<u>(37,053)</u>	<u>(17,743)</u>	<u>(54,796)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Net change in note payable	7,530		7,530
Proceeds from issuance of bonds	75,000	211,829	286,829
Repayment of bonds	(17,990)	(178,261)	(196,251)
Payment of debt issuance costs	(740)	(806)	(1,546)
Collection of financing fees		1,076	1,076
Net Cash Provided by Non-Capital Financing Activities	<u>63,800</u>	<u>33,838</u>	<u>97,638</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from grants, entitlements and shared revenues		13,339	13,339
Acquisition of capital assets	(28)		(28)
Net cash provided (used) by capital and related financing activities	<u>(28)</u>	<u>13,339</u>	<u>13,311</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments	(47,453)	(1,182,847)	(1,230,300)
Proceeds from sales and maturities of investments	42,261	1,070,027	1,112,288
Net increase in short-term investments	(21,518)		(21,518)
Loan disbursements		(37,702)	(37,702)
Principal repayments on loans		71,740	71,740
Capital lease disbursements		(196)	(196)
Direct financing lease disbursements cash flow information		(304)	(304)
Principal repayment on capital leases		7,856	7,856
Net Cash Used by Investing Activities	<u>(26,710)</u>	<u>(71,426)</u>	<u>(98,136)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>9</b>	<b>(41,992)</b>	<b>(41,983)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>58</b>	<b>160,411</b>	<b>160,469</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 67</b>	<b>\$ 118,419</b>	<b>\$ 118,486</b>
<b>SUPPLEMENTAL INFORMATION:</b>			
Interest paid	\$ 12,513	\$ 87,178	\$ 99,691
Noncash investing activity - Real estate acquired in settlement of loans	\$ -	\$ 670	\$ 670



STATISTICAL SECTION



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**Table 1**  
**Expenditures By Function**  
**General Fund/Year Ended June 30**  
**(Expressed in Thousands)**

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Education	\$ 2,172,021	\$ 2,098,860	\$ 1,959,309	\$ 1,883,809
Health and human resources	2,984,687	2,698,687	2,614,967	2,496,628
Transportation	788,416	622,061	559,572	635,188
Law, justice and public safety	509,428	333,211	311,176	265,313
Recreation and resource development	196,734	203,358	170,619	177,838
General government	602,855	587,147	992,322	724,127
Regulation of business and professionals	120,189	161,703	139,345	121,450
Debt service	69,841	77,244	57,917	54,876
Capital outlay	132,485	142,227	120,525	110,988
Other				
Total Expenditures	<u>\$ 7,576,656</u>	<u>\$ 6,924,498</u>	<u>\$ 6,925,752</u>	<u>\$ 6,470,217</u>

NOTE: The expenditures for fiscal years 1994 through 1992 are shown on a cash basis.

**Table 2**  
**Revenues By Source**  
**General Fund/Year Ended June 30**  
**(Expressed in Thousands)**

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Taxes:				
Personal income	\$ 1,544,526	\$ 1,454,548	\$ 1,625,316	\$ 1,553,778
Consumer sales	1,647,333	1,622,476	1,560,892	1,476,686
Corporate net income	159,700	215,562	248,664	268,605
Gas and motor carrier	257,407	285,113	386,503	368,050
Other	373,688	349,969	353,136	361,071
Intergovernmental	2,882,725	2,613,654	2,459,368	2,387,385
Licenses, permits and fees	480,698	481,078	438,174	414,338
Investment earnings	107,074	102,158	108,000	90,169
Other	<u>623,006</u>	<u>442,979</u>	<u>390,236</u>	<u>241,826</u>
Total Revenues	<u>\$ 8,076,157</u>	<u>\$ 7,567,537</u>	<u>\$ 7,570,289</u>	<u>\$ 7,161,908</u>

NOTE: The revenues for fiscal years 1994 through 1992 are shown on a cash basis.

1997	1996	1995	1994	1993	1992
\$ 1,812,291	\$ 1,690,844	\$ 1,629,154	\$ 1,539,641	\$ 1,415,624	\$ 1,384,835
2,437,633	2,297,385	2,067,465	2,834,720	1,885,566	2,571,880
677,638	579,417	483,972	517,992	510,369	513,979
282,258	241,228	200,574	268,862	240,411	197,277
163,937	178,519	150,509	132,716	136,780	114,284
751,164	783,378	722,077	954,499	757,474	346,702
147,064	130,339	126,415	95,751	85,913	111,519
77,360	27,413	9,184	12,374	45,328	9,920
184,003	94,874	73,812	6,984	11,912	
					4,324
<u>\$ 6,533,348</u>	<u>\$ 6,023,397</u>	<u>\$ 5,463,162</u>	<u>\$ 6,363,539</u>	<u>\$ 5,089,377</u>	<u>\$ 5,254,720</u>

1997	1996	1995	1994	1993	1992
\$ 1,378,162	\$ 1,328,615	\$ 1,227,075	\$ 1,117,530	\$ 1,051,909	\$ 970,883
1,435,841	1,364,977	1,312,884	1,220,868	1,429,880	1,039,540
236,538	259,056	214,712	204,027	177,368	152,218
355,586	353,598	348,296	334,691	315,540	349,881
312,704	407,647	328,390	306,335	295,988	202,725
2,335,367	2,213,786	1,990,879	1,731,468	1,625,469	1,519,246
381,498	355,742	255,279	227,750	194,456	182,783
68,888	66,033	48,931	25,483	30,119	12,984
386,352	361,376	333,038	1,473,901	366,649	1,413,874
<u>\$ 6,890,936</u>	<u>\$ 6,710,830</u>	<u>\$ 6,059,484</u>	<u>\$ 6,642,053</u>	<u>\$ 5,487,378</u>	<u>\$ 5,844,134</u>

Table 3

Ratio of Outstanding General Obligation Debt to Assessed Value and Net Debt Per Capita  
For the Last Ten Fiscal Years

(Expressed in Thousands - Except for Ratio and Per Capita Data)

For the Year Ended June 30	Population	Assessed Property Value	General Obligation Debt	Net General Obligation Debt	
				Per Capita	Ratio Assessed Value
2001	2,689	\$23,978,509	\$ 551,189	204.98	0.023
2000	2,673	22,696,148	546,172	204.32	0.024
1999	2,557	21,648,239	388,336	151.87	0.018
1998	2,540	20,796,084	400,402	157.64	0.019
1997	2,525	19,894,960	299,101	118.45	0.015
1996	2,507	18,383,044	244,683	97.60	0.013
1995	2,483	17,020,575	146,729	59.09	0.009
1994	2,449	16,638,626	149,261	60.95	0.009
1993	2,422	15,755,563	148,035	61.12	0.009
1992	2,392	15,200,446	132,040	55.20	0.009

## Sources -

Population: State of Arkansas Department of Finance and Administration Economic  
Analysis and Tax Research

Assessed Property Value: Assessment Coordination Department

Table 4

Ratio of Annual Debt Service Expenditures for General Bonded Debt  
to Total General Fund Revenues and Expenditures

For the Last Ten Fiscal Years (Expressed in Thousands)

For the Year Ended June 30	Debt Service	Total Revenue	Ratio	Total Expenditures	Ratio
2001	\$69,841	\$8,076,157	.0086	\$7,576,656	.0092
2000	77,244	8,005,759	.0096	7,362,720	.0105
1999	57,917	7,570,289	.0077	6,925,752	.0084
1998	54,876	7,161,908	.0077	6,470,217	.0085
1997	77,360	6,890,936	.0112	6,533,348	.0118
1996	27,413	6,710,830	.0041	6,023,397	.0046
1995	9,184	6,059,484	.0015	5,463,162	.0017
1994	12,374	6,642,053	.0019	6,363,539	.0019
1993	45,328	5,487,378	.0083	5,089,377	.0089
1992	9,920	5,844,134	.0017	5,254,720	.0019

**Table 5**  
**Revenue Bond Coverage**  
**For the Last Ten Years**  
**(Expressed in Thousands)**

	<u>Gross</u> <u>Revenue (1)</u>	<u>Direct</u> <u>Operating</u> <u>Expense</u>	<u>Net Revenue</u> <u>Available For</u> <u>Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt</u> <u>Service</u>	<u>Coverage</u>
Arkansas Student Loan Authority							
2001	\$53,888	\$ 3,680	\$50,208	\$17,655	\$12,478	\$ 30,133	1.67
2000	44,630	2,902	41,728	4,730	10,353	15,083	2.77
1999	42,470	2,775	39,695	1,665	12,002	13,667	2.90
1998	37,510	2,572	34,938	2,100	12,200	14,300	2.44
1997	33,702	2,360	31,342	8,570	12,554	21,124	1.48
1996	31,471	2,076	29,395	2,575	10,968	13,543	2.17
1995	29,253	2,001	27,252	3,200	10,379	13,579	2.01
1994	22,198	1,673	20,525	3,415	7,470	10,885	1.89
1993	16,257	1,435	14,822	3,680	5,315	8,995	1.65
1992	12,876	1,216	11,660	6,680	3,734	10,414	1.12

(1) Includes principal payments on student loans which are available for debt service.

**Table 6**  
**Demographic Statistics**  
**For the Last Ten Years**

<u>Calendar</u> <u>Year</u>		<u>Total</u> <u>Population</u> <u>(in thousands)</u>	<u>Per Capita</u> <u>Personal Income</u>	<u>Unemployment</u> <u>Rate</u>
2001	(forecast)	2,689	\$23,757	4.5 %
2000		2,574	23,114	4.4 %
1999		2,557	22,188	4.5 %
1998		2,540	21,149	5.5 %
1997		2,525	20,334	5.3 %
1996		2,507	19,425	5.4 %
1995		2,483	18,524	4.9 %
1994		2,449	17,757	5.3 %
1993		2,422	17,005	6.1 %
1992		2,392	16,439	7.2 %

Source:

State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Table 7  
Economic Statistics  
For the Last Ten Years  
(Expressed in Millions)

<u>Calendar Year</u>	<u>Gross State Product (Stated in 1996 Dollars)</u>	<u>Personal Income</u>
2001	\$ 66,441*	\$61,572
2000	65,459*	58,844
1999	62,821	56,046
1998	60,268	53,804
1997	58,585	51,055
1996	56,796	48,700
1995	54,689	45,996
1994	52,921	43,498
1993	50,174	41,190
1992	48,652	39,323

\*Estimates

Source:

State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Table 8  
Property Values, Taxable Sales, Bank Deposits and Bank Loans  
(Expressed in Millions - Except for Bank Number Data)

<u>Calendar Year Ended</u>	<u>Assessed Property Values</u>	<u>Retail Sales</u>	<u>Banks</u>			
			<u>Number</u>	<u>Deposits</u>	<u>Loans</u>	<u>Assets</u>
2001	\$ 23,979	\$ 26,409	N/A	N/A	N/A	N/A
2000	22,696	25,740	185	\$ 21,545	\$ 5,600	\$ 25,682
1999	21,648	24,902	195	22,467	16,433	26,725
1998	20,796	23,478	202	21,503	14,772	25,128
1997	19,895	22,995	226	24,704	17,159	28,735
1996	18,383	22,707	233	26,453	17,515	30,633
1995	17,021	21,230	242	24,057	16,298	27,987
1994	16,639	20,231	257	23,431	14,085	27,085
1993	15,756	18,286	257	22,109	12,642	25,164
1992	15,200	17,455	258	21,534	11,636	24,371

N/A - Information not available.

Sources:

Assessed Property Value: Assessment Coordination Department  
Taxable Sales: State of Arkansas Department of Finance and Administration  
Economic Analysis and Tax Research  
Banks: State Bank Department; FDIC Database



Table 9

## Twenty-five Largest Private Sector Employers in Arkansas

	<u>Company</u>	<u>Number of Employees</u>
1.	Wal-Mart Stores Inc.	39,341
2.	Tyson Foods Inc.	23,841
3.	Baptist Health	7,144
4.	Alltel Corporation	5,200
5.	ConAgra Inc.	5,185
6.	Beverly Enterprises Inc.	4,986
7.	Georgia-Pacific Corporation	4,957
8.	Emerson Electric Company	4,139
9.	International Paper Company	3,900
10.	Whirlpool Corporation	3,700
11.	St. Vincent Health System	3,446
12.	Union Pacific Railroad Co.	3,400
13.	Entergy Corporation	3,069
14.	Acxiom Corp.	3,035
15.	J.B. Hunt Transport Services Inc.	3,011
16.	SBC Communications Inc.	3,000
17.	Arkansas Children's Hospital, Inc.	2,922
18.	Dillard's Inc.	2,808
19.	Kroger Co.	2,700
20.	Sparks Regional Medical Center	2,687
21.	United Parcel Service, Inc.	2,600
22.	Simmons Foods, Inc.	2,500
23.	O.K. Industries Inc.	2,492
24.	Cargill, Inc.	2,441
25.	Cooper Tire and Rubber Co.	2,300

Source:

Arkansas Business Book of Lists, 9<sup>th</sup> Edition

Table 10A  
Miscellaneous Public Education Statistics  
For the Last Ten Years

<u>School Year Ended</u>	<u>Number of Schools</u>	<u>Average Daily Attendance</u>	<u>Number of Teachers</u>	<u>Pupil-Teacher Ratio</u>
2001	1,159	418,906	31,883	13.14
2000	1,149	422,958	31,010	13.64
1999	1,108	421,933	30,745	13.72
1998	1,149	429,892	29,616	14.52
1997	1,104	426,983	29,415	14.52
1996	1,095	420,901	29,344	14.34
1995	1,095	418,222	28,875	14.48
1994	1,119	414,065	28,550	14.50
1993	1,082	411,306	28,180	14.60
1992	1,095	409,174	28,206	14.51

Source:

Annual Status Report of the Public Schools of Arkansas, Arkansas Statistical Report, and Arkansas Department of Education.

<u>School Year Ended</u>	<u>Expenditure on Education Per Pupil in Daily Attendance</u>			<u>% Revenue from State Government</u>		
	<u>U.S.</u>	<u>AR</u>	<u>AR Rank</u>	<u>U.S.</u>	<u>AR</u>	<u>AR Rank</u>
2001	*	*	*	*	*	*
2000	\$ 7,146	\$ 5,625	46	50.70%	62.90%	12
1999	6,734	5,545	42	49.80	61.00	16
1998	6,638	5,848	34	49.10	60.80	14
1997	6,335	4,498	48	48.70	65.90	6
1996	6,103	4,353	48	47.90	65.40	7
1995	5,894	4,059	49	46.00	63.60	9
1994	5,730	3,949	49	45.80	62.70	11
1993	5,616	3,928	47	46.90	62.30	11
1992	5,466	3,770	46	47.90	62.80	12

\* - Information not available.

Source:

Computed from National Education Association Research, Estimates Data Bank - 1998

Table 10B  
Miscellaneous Higher Education Statistics  
For the Last Ten Years

## Public Institutions

	<u>Fall Net Enrollment</u>	<u>Degrees Awarded</u>		
		<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>
2000-01	100,207	14,148	2,987	17,135
1999-00	99,225	13,752	3,053	16,805
1998-99	97,742	13,027	2,951	15,978
1997-98	95,435	12,743	2,869	15,612
1996-97	92,069	13,152	2,910	16,062
1995-96	90,276	12,543	2,729	15,272
1994-95	89,466	11,907	2,823	14,730
1993-94	89,230	11,684	2,754	14,438
1992-93	88,764	11,351	2,641	13,992
1991-92	81,121	9,126	2,408	11,534

## Private Institutions

	<u>Fall Net Enrollment</u>	<u>Degrees Awarded</u>		
		<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>
2000-01	11,487	1,941	120	2,061
1999-00	11,015	2,013	111	2,124
1998-99	10,781	1,871	76	1,947
1997-98	10,698	1,950	80	2,030
1996-97	11,116	1,893	90	1,983
1995-96	10,969	1,786	80	1,866
1994-95	10,703	1,566	59	1,625
1993-94	10,602	1,634	73	1,707
1992-93	10,422	1,675	62	1,737
1991-92	10,145	1,730	63	1,793

## Source:

Student Headcount by Institution, Table 6, Fall Enrollments 2000 (to be published).

Annual Summary Report of Degrees Granted by Arkansas Institutions of Higher Education, 1990-91 to 1994-95; Degrees and Certificates Awarded by Arkansas Higher Education, 1996-97 to 1999-01 (to be published).

Table 11

Miscellaneous Statistics

Date of Statehood	1836
Form of Government	Constitutional Representative Government
Land Area	34,036,700 Acres
Miles of State Highway	16,367
State Police Protection:	
Number of Stations	22
Number of State Police	556
Higher Education (State supported):	
Number of Campuses	33
Number of Students	100,207
Recreation:	
Number of State Parks	51
Area of State Parks and Forests	51,646 Acres
Number of Museums	5



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